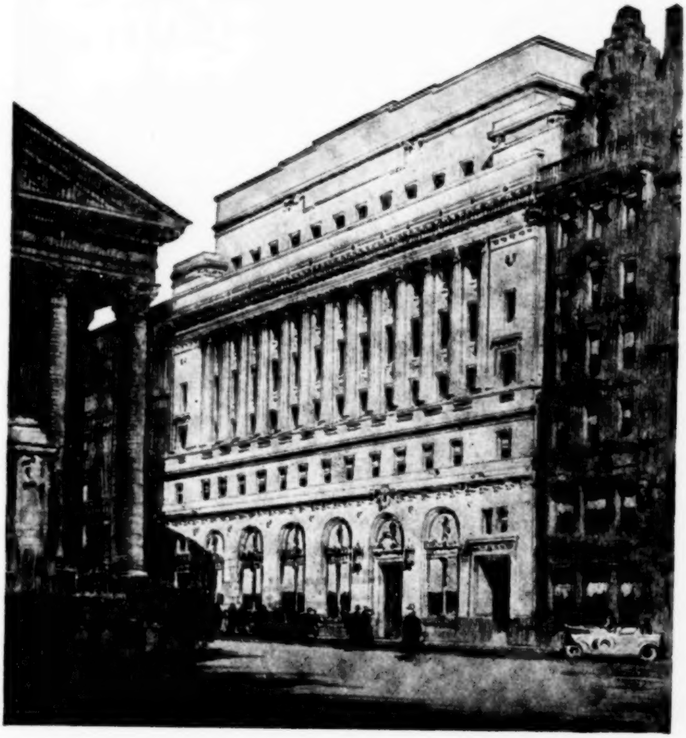

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The Bank publishes from time to time in this REVIEW *signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles. They are published in order to stimulate free discussion and full inquiry.*

**** In view of the widespread interest in current developments in the United States of America, we have pleasure in publishing the following article from the pen of Mr. John Davenport, the distinguished editor of* Barron's Weekly, *and his collaborator, Mr. Kurt Bloch.*

Guns, Butter, and Cows

A Review of the U.S. Economic Scene

By John Davenport and Kurt Bloch

ON April 23rd Mr. Aneurin Bevan gave the following estimate of the U.S. economy: " The lurchings of the American economy, the extravagant and unpredictable behaviour of the production machine, the failure on the part of the American Government to inject the arms programme into the economy slowly enough, have already caused a vast inflation of prices all over the world, have disturbed the economy of the Western world to such an extent that if it goes on more damage will be done by this unrestrained behaviour than by the behaviour of the nation the arms are intended to restrain."

For those who do not happen to share Mr. Bevan's values it happens to be a very satisfactory estimate indeed. To believe that American rearmament is more dangerous to the West than Russian aggression is to take a highly optimistic view of international relations in A.D. 1951. And to believe that this rearmament is going as fast as Mr. Bevan seems to think it is must, under present circumstances, give large hope to most sensible men. Happy the U.S. and Britain if all that was wrong with the world was some inflation of prices caused by the fact that the generals and admirals and statesmen of civilized society had ordered up in time not too few guns but too many!

Unfortunately, the soldiers and statesmen of the West have not made this " error " if it can be called such. With the Eighth Army running up heavy casualties in Korea, yet with Western leaders so unsure of themselves *vis-à-vis* Russia they dare not make normal use of air-power to win and terminate the conflict, it is surely a little premature to talk about too much rearmament. Rather it will appear from this paper not only that American rearmament is late but that it is

even now much too much oriented towards production in 1952 or 1953 to match the seriousness of the present hour. In the long run, no doubt America (and Britain) will produce the guns. But in the long run, to borrow again the old Keynesian cliché, we shall all be dead.

And because American rearmament has not been as swift as Mr. Bevan thinks, it is also not the inflationary bogeyman he considers it to be. At the present time, indeed, American prices are levelling off and the country is experiencing a touch of mild recession. While ill-timed stockpiling did have pronounced effect on some world commodities last year, wholesale prices within the United States have advanced only about 15 per cent. since Korea and the cost of living about 8 per cent. Finally, even this amount of inflation cannot be attributed solely to rearmament but rather to a number of civilian factors and to ill-timed Government decisions. The history of the times, in short, is like most history complicated. Let us have a look, first, at what has really been going on in America; then consider Government policies; and finally sum up the lessons that can be learned for the future.

II

In June, 1950, when the Korean war began, the American economy presented a reassuring spectacle to all those who had predicted that the Second World War must be followed by a devastating depression. It had climbed out of the slight recession of 1948–49 and was maintaining high levels of employment and output. Automobile production was at the rate of 8,000,000 cars and trucks per year. New houses were being built at the incredible rate of 1,500,000 units per year.

There were signs at the time, however, that this boom might well taper off. Its dependence on easy credit in both housing and the durable goods field seemed to make it vulnerable or at least ready for healthy readjustments. The outbreak of the Korean war made such speculation premature. The Government rightly began to increase the size of the military programme. In June, 1950, military spending was only about \$12 billions per year on a total gross product of about \$271 billions. By June of this year such spending is expected to reach \$30 billions per year, and by June of 1952, \$50 billions per year. This is admittedly a large increase but it should be noted that it was slow in starting. The decisive factor in explaining such inflation as has occurred is that even while the

Government made its plans all other forms of spending increased. (See Table below). As the economy geared itself up for limited war the old civilian boom took on renewed life with both consumption and investment rising.

(*Quarterly Figures at Annual Rates*)	*Second Quarter,* 1950 $ billions	*First Quarter,* 1951 $ billions
Gross National Product	271·6	313·9
Government Purchases	39·9	52·6
Personal Consumption	185·8	204·8
Gross Private Domestic Investment ..	47·7	59·0
of which :		
Addition to Inventories	4·4	7·9
Producers' Durable Equipment ..	21·8	27·6
Residential Construction	12·4	12·9

The above table shows various components of the U.S. gross national product selected for their importance. It should be noted that the component Government purchases includes spending of State and Local Governments as well as of Federal Government. For this and other reasons it is not directly comparable to military spending rates and yearly budget figures cited in the text.

As to consumption, it was perhaps inevitable that many Americans began thinking in terms of the Second World War the moment that Korean hostilities began. Housewives started to stockpile coffee and sugar. Sheets and pillow cases, towels and so forth were taken off retailers' shelves faster than they could be replaced. There was fresh demand for houses, automobiles and television sets in the idea that they must soon be cut back. To panic buying must be added a very real factor favouring inflation : in 1950, for the first time since the War, the U.S. Department of Agriculture imposed controls over important crops. Rarely had a move been worse timed. Especially in cotton, the controls, plus other factors, resulted in a far smaller crop than anticipated.

The first wave of scare buying lasted through the third quarter of 1950 and then began to taper off especially as the result of better news from Korea. Came then the massive intervention of Red China in December of 1950, and in January and February of 1951, a second wave of consumer buying followed. Meanwhile, however, two other factors powerfully affected the economy. The first was a tendency of businessmen sharply to increase their inventories. Like consumers, they also looked for the worst, especially with respect to the

non-ferrous metals and steel. Moreover, they took inflation for granted and looked forward to speculative gains on stocks. Goods are better than money in the bank, was the general view. From the outbreak of the Korean war to the end of the first quarter of 1951, business inventories increased, therefore, from $54 billions to $66 billions. Though in the fall of 1950 the Government imposed certain selective controls on housing and appliance credit, it was, for reasons to be dealt with presently, unable or unwilling to restrain general commercial credit before 1951. In the period from June, 1950, to 9th April, 1951, loans by member banks of the Federal Reserve System, mostly for inventory accumulation, rose from $37·6 billions to $46·3 billions.

But it was not only inventories which expanded. Investment in plant and equipment also has remained at an extremely high level. In 1950, expenditures for plant and equipment amounted to about $19 billions. In 1951, they may well top $25 billions. It was to be expected, of course, that as Government stepped up its orders many industries must of necessity retool. What was not entirely necessary was that capital expansion should go on at such a high rate in fields only tangentially connected with defence—the oil industry, the freight car industry, and even the textile industry. Yet this is what occurred and, taken with inventory accumulation and the rise of consumer expenditure, it explains fully why inflation took place. In the 'thirties, Field Marshal Goering presented the German people with the famous choice—guns or butter—and answered the question himself in favour of guns. As the preceding remarks have perhaps implied, the U.S. did not make that choice: it attempted over a good many months to get more guns, more butter, and to increase or at least maintain into the bargain, its herd of cows (investment).

III

This attempt to do everything at once would be the natural result of a policy of drift. What is remarkable about the current American scene is that the attempt has been made with the full, if not enthusiastic, concurrence of the Government. The first reaction of the Truman Administration to Korea, as already noted, was the proper one of trying to increase arms output. But very rapidly the theory developed that this could be done with relatively little pain. Instead of *converting*

existing industrial facilities to armament output, as was done in the Second World War, the idea gained ground that new plant should be built for war purposes. While these facilities were being built, the economy would obviously be under considerable strain: it takes steel to build new steel mills. But by 1952 or 1953, so the theory runs, all will be well. The U.S. then will have all the plant it needs for maintaining a massive military establishment, and for restoring the lush civilian economy of early 1950.

This glittering theory has been espoused by Defence Mobilizer Charles E. Wilson, who came to Washington from the presidency of the General Electric Company in October, 1950. It also is obviously agreeable to Mr. Leon Keyserling, who, as chairman of the President's Council of Economic Advisers, is the Government's chief economic expert. The theory has two difficulties: first, if an economy refuses to convert to war but rather builds new plant for war-making purposes, it will obviously get a relatively small output of arms in the initial phase of the plan. Secondly, since investment in new plant is obviously just as inflationary *while it is going on* as would be conversion of existing plant to war use, the problem of inflation is not avoided. It is in a political sense perhaps intensified. A democratic people may put up with a good many regulations if they see that civilian production is being cut back for more arms production now. But if they are asked to sacrifice for the building of new plant which will come into production several years hence their reactions may be different.

This psychological difficulty has not phased the Washington administrators. Coupled with the idea that the U.S. must expand plant facilities now is the idea that direct controls over the economy are necessary and will work. Those controls have by now greatly proliferated in the U.S. and take two forms: first, controls over the flow of raw materials and, secondly, controls over prices. The former are of two kinds: restriction orders and so-called D.O. orders. Restriction orders limit the amount of steel, copper, aluminium and other scarce materials which a firm can use in 1951 to a given percentage of what it used in pre-Korean days. D.O. (Defence Orders) give the holder a theoretical absolute claim to certain raw materials for such defence work as he may have in progress. The difficulty with these orders is that, like the priorities of the

early days of the Second World War, they are really merely " hunting licences " for materials. So many have now been issued they have begun to lose all value. Hence the Government plans as of July 1st to initiate a so-called Controlled Materials Plan, which will definitely allocate raw materials to military production and to so-called " defence-supporting " industries.

Some form of allocation is perhaps justified in the circumstances. Much less can be said for the price and wage controls which the Government is trying to enforce. Price control, especially, has now gone through so many bewildering phases that most Americans simply pass off the matter with a shrug. In January, 1951, the Government instituted an over-all " freeze " on prices. This was swiftly followed by various " de-freezing " orders establishing special ceilings for particular prices. Recently the Office of Price Stabilization put out further orders which attempt to control prices by allowing businessmen only the margin of profit which they obtained in a pre-Korea base period. The idea is that, by this technique, they would do most of the work in figuring what their prices should be. One obvious difficulty is that smaller firms simply do not have the time or the personnel to do this work. A hardware store, for instance, complained the other day that it was already " outside the law " because it could not cope with the number of forms which it was required to fill. A more fundamental difficulty with price control is that, while the Administration is free to move against industrial prices, it is committed to " parity " for farm prices.[1] Farm prices in turn are by far the largest factor affecting the cost of living, which in turn has a profound effect on wage demands. Due to the power of the farm bloc, the very prices which it is most important to hold down are those which cannot be held down. At the present time the OPS Administrator is attempting to roll back the price of meat, which is well above parity. The attempt is meeting strong resistance and has relatively little chance of success. To the degree that meat prices are artificially controlled, it is safe to assume that black markets will reappear, as they did in the Second World War.

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[1] Parity is a complex mathematical formula designed to define that level of farm prices at which farmers need not feel at a disadvantage compared with other segments of the economy. Originally, the parity base period was the average of the 1909–13 quinquennium. Under more recent legislation, the base period is shifting towards prices prevailing, on the average, in the last decade. The change has been of minor importance, as recent prices have been manipulated in accordance with the 1909–13 " parity " basis.

IV

On the evidence to date, direct price controls are a failure, as many predicted they would be when they were first instituted. The decisive factors affecting inflation and its control have been fiscal and credit policies. Fiscally, the U.S. has done well. To the surprise of many, the Treasury will close the current fiscal year (July, 1950–June, 1951) with a cash surplus of over $7 billions. This has come about through two factors. First, as already noted, expenditures for armament have not risen as rapidly as supposed. For the present fiscal year they will amount to about $20 billions on a total outlay of $44 billions. Secondly, the continuing boom has brought in much larger tax receipts than anticipated. In the next fiscal year, (July, 1951–June, 1952), the Treasury may again face red ink. Defence expenditures are slated to rise to $39·5 billions, with foreign aid of various kinds budgeted at $7 billions, and total expenditures of around $70 billions. These budget provisions may, however, be shorn by Congress of several billion dollars. The President has asked for $10 billions in additional taxes. It is doubtful if he will get more than $6 billions. This may leave a deficit for the year, but not of very large proportions.

Since the budget has been balanced in the first year of rearmament, where has the money come from for such inflation as has occurred? The obvious answer is that it has come from a widespread process of dis-saving, especially during the panic buying that followed the outbreak of the Korean war, and secondly from a wide extension of bank credit. The inflation of the past year, indeed, is a classic example of how such credit, if uncontrolled, can completely nullify a sound fiscal policy. And perhaps one of the most interesting issues involved in the mobilization programme is the question why bank credit was not curbed in time.

Historically, the Federal Reserve has developed three methods of credit control. The first is the use of the rediscount rate, used extensively in the 'twenties. The second is open market operations, whereby through selling Government bonds the Federal can, or could, decrease the lending power of the commercial banks. The third method, used in the late 'thirties and again in 1948, is actually to change the reserve requirements of the banks, thereby also making lending more difficult. In January of this year the Federal did raise reserve

requirements by roughly $2 billions, but only after the banks had considerably extended their loans. Last August it raised the rediscount rate from 1½ per cent. to 1¾ per cent. The Board, however, has not been free to use traditional open market operations. On the contrary, instead of selling Government bonds, it has felt called upon, until very recently, steadily to purchase them. Between June, 1950, and April of this year, total holdings of Government securities by the Reserve rose from $18,217 millions to $22,716 millions. This "open market operation in reverse" was obviously one of the principal factors in providing the banks with fresh reserves on which they could extend their loans.

The reason why this policy was reluctantly pursued is well known. It goes back in part to the "cheap money" theories of the 'thirties, but even more to the tremendous rise of Government indebtedness during the Second World War, and failure to refund that debt when the War was over. When the Korean war broke out, the national debt amounted to $257 billions, much of it in short-term obligations, requiring constant refinancing, and some $57 billions in the form of E, F, and G saving bonds, which are redeemable on demand. The Treasury has long maintained that in the circumstances it could not let interest rates rise sharply, and conversely it could not let the price of Government bonds decline sharply. An informal agreement was built up with the Federal Reserve that longer-term Government bonds should be "pegged" so as to maintain a 2½ per cent. interest pattern on these obligations.

It was the attempt to maintain these pegs which accounts for the Federal's large purchase of Government securities in the months immediately following Korea. In January, the Reserve authorities let it be known that they were disturbed by the purchases to which they had been forced. A violent argument then broke out between Treasury spokesmen on the one hand and Reserve spokesmen on the other as to whether or not the pegs should be maintained. In March came a kind of agreement and reconciliation. Mr. William McChesney Martin, formerly of the Treasury, moved over into the Federal Reserve as chairman, bringing with him a compromise on policy.

Part of the compromise involved the issuance of a new 2¾ per cent. non-marketable long-term bond which could be obtained by exchanging outstanding 2½ per cent. bonds. This

issue has been tolerably successful, and has had the effect of " freezing " the major portion of the whole $2\frac{1}{2}$ per cent. debt. Meanwhile, however, while the exchange was taking place, and even more decisively since, the Federal has allowed outstanding marketable obligations to find their own level. The authorities have maintained order in the bond market, but the policy of the pegs has been definitely abandoned. As a result, $2\frac{1}{2}$ per cent. obligations, which formerly were pegged above par, have gone below 97. What this means is that money rates have firmed and, more importantly, the Reserve authorities have regained a freedom of action formerly completely denied to them. Banks and other institutions can no longer hold long-term Government securities with complete assurance that they will not drop in price. It is significant that purchases of Government obligations by the Reserve authorities have tended to taper off. In March, the Federal's total holdings of Government obligations rose by over $700 millions. In April, they rose by only $100 millions and over recent weeks there has been a net decline.

Thus, the " monetization " of the debt seems to have come to a temporary pause. There is no assurance, of course, that it will not be resumed if the Treasury gets into difficulties with new and large financings which are coming up this year. But there is a breathing spell, and the maintenance of " cheap money " is no longer quite the fetish which it once was. In other ways, the Reserve Board has also acted with wisdom. While restraints on consumer and housing credit came late, they are nonetheless proving effective. It is no longer possible to buy a house, an automobile or a refrigerator with practically no down payment. As a result of this kind of selective credit control, demand for both houses and durable consumer goods has been considerably dampened, and inventory accumulation has ceased if it has not actually reversed itself in the form of liquidation. It is this enforced drop in civilian demand which accounts for the fact that prices are now easing, and that the U.S. has already weathered the first inflationary storm and emerged into calmer waters.

V

What of the future? According to some Government economists the calm will be broken when Government military orders at last begin to bite hard and deep in the latter part of

this year. The estimate is somewhat suspect because so often motivated by the desire of Washington to maintain direct controls over the industrial machine indefinitely. A sounder estimate would seem to be that there is already enough prospective slack in the economy to justify both a speed-up in military deliveries and the removal of price and wage ceilings. However relevant to total war, they have little relevance or utility in the present American situation.

What the American experience *does* prove is the efficiency and need of fiscal and monetary policies. If the economy is to be kept in balance it will be through the continuation of credit restraint and the adoption of severe budgeting. Such budgeting should give the military all they request for true rearmament, but it should rigorously preclude all those " reform " measures which have been put forward in the name of the Fair Deal: Federal aid to education, larger Social Security payments, rural electrification and unnecessary foreign expenditures such as that contemplated under Point Four. Until the Korean business is wound up in one way or another, there should be no room for measures which, however desirable in other circumstances, have no place amidst today's realities. Mr. Roosevelt once remarked that he had put aside Dr. New Deal for Dr. Win The War. The Truman Administration is much in need of a similar resolve.

Translated into terms of resources such a policy means that the U.S. practise true economy—cutting down on lavish dreams of expansion and keeping its attention fixed on the main objective. Except in periods of widespread unemployment as in 1940 there is no way by which a nation can rearm painlessly. The pain is not avoided by saying that we will build plant capacity today to produce arms tomorrow. All that this does, really, is to slow up the rapid production of arms. The delivery of arms in the U.S. is unquestionably increasing. It is not however increasing fast enough. There is great and immediate need of realizing that not 1952 or 1953 is the year of decision. The year of decision is in all probability 1951.

If this is realized, how would it affect America's allies, particularly Britain? Much depends here on what the policies of America's allies are to be. If they believe that not only a high level of consumption but also a high level of private investment takes priority over arms output, then the whole effort to strengthen the West and the Atlantic Community will

fail. But if they profit by America's mistakes and see that there is no way to have guns, butter, and the cow besides, then the prospect brightens. A policy of austerity in the U.S., even though it means reducing non-essential foreign aid, need not mean a reappearance of the famous "dollar gap." The balance of payments between the U.S. and the rest of the Atlantic Community is in better shape now than it has been for a long time. There is no reason why it should not remain so if the necessary sacrifices for rearmament are made both here and abroad.

The next few months will in all probability be decisive. The message which General MacArthur brought back to this country from Tokyo was not just concerned with a particular method of tactics or strategy. The deeper message, and the reason for its appeal in this country, was that either the West is serious in its determination to limit the aggression of Communism, or it is not. If it is not serious, it would be better to give up the whole sham and pretence. If it is serious, then a larger and more determined effort must be made now than is being made. Economic policy is admittedly less important than military and political policy. It is the servant, not the master. Yet economic policy can greatly affect both our strength and our historical fate. And the beginning of economic wisdom is perhaps the hard proposition that the coat must be cut to fit the cloth.

JOHN DAVENPORT.
KURT BLOCH.

New York.
May, 1951.

The Colombo Plan for Economic Development

An Indian View

By Dr. V. K. R. V. Rao

SOME time before the Commonwealth Foreign Ministers met at Colombo in January, 1950, there had been mooted the idea of Commonwealth co-operation in the economic field, especially that of economic development. An Indian delegate at the fifth Commonwealth Relations Conference held in Canada in September, 1949, had put forward the idea of a joint Commonwealth effort in bringing about the economic development of its less developed regions and suggested the preparation of a Commonwealth Point IV programme. A few weeks later, Mr. Spender, then Minister for External Relations in the Australian Government, issued a statement stressing the need for concerted action by Commonwealth Governments in the realm of economic development, especially in the region of South-East Asia.

It was but natural that attention should be focused on this theme at the Colombo Conference. Mr. Spender placed before the Conference a scheme for mutual aid among Commonwealth countries for the economic development of South-East and South Asia; the Government of Ceylon put forward somewhat broader proposals conceived with the same objective; whilst the Indian Prime Minister drove home the imperative need for tackling the economic problems of Asia, his views receiving the strong support of the Pakistan delegate. The other Governments represented at the conference agreed that something co-operative required to be done in the economic sphere, though each pleaded limitations in respect of resources. The conclusions of the conference in regard to this question found the following expression in the official communique that was issued in Colombo on 15th January, 1950:

> It was recognized that, in the changing conditions brought about by recent developments in this area, progress depends mainly on the improvement of economic conditions. The conference was impressed by the magnitude of the contributions which the success of progressive policies in this area could make to the peace and prosperity of the world . . . As a result of the valuable exchange of views that had taken place, recommendations for the furtherance of economic development in South and South-

> East Asia will be submitted to the Commonwealth Governments for their consideration. These recommendations include a proposal for the establishment of a consultative committee representing the Commonwealth Governments. The Australian Government proposed that the first meeting of this committee, when set up, should be held in Australia.

The first meeting of the Commonwealth Consultative Committee was held in Sydney, Australia, in May, 1950. At this meeting the decision was taken to draw up a six-year programme of economic development for countries in South and South-East Asia, the non-Commonwealth countries in this region being asked to join in this co-operative enterprise. Plans were drawn up, however, only by the Commonwealth Governments, though the others sent either delegates or observers to the next meeting of the Consultative Committee which was held in London in September, 1950, to consider these plans. The London meeting, which was attended by the Finance Ministers of the Dominions, was presided over by the British Chancellor of the Exchequer, and after a strenuous session lasting for ten days, drew up the document now known all over the world as the Colombo Plan.

The Need for Development

The full title of the Colombo Plan is *The Colombo Plan for Co-operative Economic Development in South and South-East Asia* and it covers the countries of India, Pakistan, Ceylon, the Federation of Malaya, Singapore, North Borneo, Sarawak and Brunei, with a total population of some 450 millions; the remaining countries in the region, *viz.* Burma, Thailand, Viet-Nam and Indonesia, are still to come in.

The report begins with an outline of the importance of this region in world economy and the crucial role it played in the maintenance of multilateral trade:

> Before the war, it provided almost all the world's exports of jute and rubber, more than three-quarters of the tea, almost two-thirds of the tin, and one-third of the oils and fats. These key products have for generations flowed into the great trade routes of the world. Rubber, tin, and jute products earn dollars in the Western hemisphere. Tea and oils are shipped to Europe. In return, the industrial products of the West—textile machinery, iron and steel—flow back into the area.

The War and its aftermath, however, have inflicted grave damage on these economies and seriously disturbed their role

as dollar earners. In many cases production has failed to rise to pre-war levels, and even when it has, exports have failed to reach them. The following figures are revealing in this connection :

Commodity	Production '000 tons		Exports '000 tons	
	Pre-War	1949	Pre-War	1949
Rice (paddy)	70,990	70,117	5,676	2,460
Wheat*	10,160	9,517	—	—
Oils and Fats	3,596	3,174	1,319	630
Tea	377	439	315	362
Sugar	6,223	6,200	1,029	36
Jute*	1,831	1,340	757	271
Jute Manufactures ..	1,266	823	894	846
Raw Cotton*	1,132	606	573	177
Natural Rubber.. ..	864	1,397	830	1,393
Tin	116	94	116	95
Petroleum (crude) ..	7,960	9,034	not available	

* Excludes trade between India and Pakistan.

At the same time, population has been steadily increasing in the region at a rate exceeding an average of 1·5 per cent. a year. Consumption of food per head has fallen even below the inadequate pre-war average, while the area as a whole has become heavily deficit in food and spends millions of dollars in importing food and coarse grains from the Western hemisphere. Transport and industry have suffered heavily as a result of the War, with the result that much of the resources of the region which otherwise might have been applied to new development have been spent in post-war years in making good these deficiencies.[1] Incidentally, this has led to the emergence on a large scale of balance-of-payments deficits which never existed before, while this has been further accentuated by the almost complete absence of capital imports into this region. The only saving factor in the situation, as far as India, Pakistan and Ceylon were concerned, was their ability to draw upon their sterling balances ; and this too became possible not only because of the understanding attitude of the United Kingdom but also because of the generous support that it received from the U.S.A., Canada, Australia, and New Zealand in the form of loans and gifts, including Marshall Aid. While the countries of the Commonwealth have therefore

[1] See also charts on pages 56 and 57.

rehabilitated their economies to a certain extent and maintained political stability, the same is not the case with the other countries in the region; their continuing political instability and economic disruption having inevitable effects on their exports, especially of food grains, to the rest of this area. It must be added, however, that recently American economic aid has begun to flow in the direction of these countries, Burma, Thailand and Viet-Nam receiving E.C.A. aid, while Indonesia has received a substantial loan from the Export-Import Bank of the U.S.A. The effect of American economic initiative in these areas, however, still remains to be fructified in terms of production and exports. In the meanwhile, the standard of living in this region has fallen, balance-of-payments deficits have emerged, dependence has been created for food on the Western hemisphere, and capital imports have become conspicuous by their absence.

At the same time, the aftermath of the War with its emergence of free nations in Asia has led to an immense increase in the political and economic consciousness of their populations. The peoples of Asia are awake and are clamouring for more food, more clothing and more housing, while their newly constituted democratic Governments, finding it hard to resist this pressure, find it even harder to take any effective action to meet the demands created by this pressure. There is no doubt that if something is not done to achieve quick results in this field, the stability as well as the democratic character of these new Governments will be gravely threatened by mass action. It goes without saying, therefore, that the Colombo attempt at dealing with the economic problem of South and South-East Asia on a co-operative basis by the Commonwealth Governments is a timely move and in the right direction.

Objectives of the Plan

Now, what is this Colombo Plan? What is its objective? How is it proposed to be achieved? How are the difficulties—both technical and financial—going to be overcome? Above all, what is going to be the co-operative effort which the Commonwealth is going to put in towards the implementation of the Plan?

To begin with, the Colombo Plan is modest in its objective and has no ambitious programme of doubling or trebling the

national income in a hurry; nor does it call for astronomical figures of investment based on totally unrealistic percentages of savings to national income, as, for example, the Bombay Plan did for India. With the exception of Ceylon, public investment—which constitutes the bulk of the Plan—averages about 3 per cent. of the national income and of this not more than 60 per cent. is expected to be realized from domestic savings. The Plan is based on a careful screening and pruning of specific projects for development, on which the necessary preliminary preparatory work has already been done. Indeed, a large number of projects have been excluded from the Plan, even though technically feasible, on grounds of financial feasibility and anti-inflationary considerations. Thus, for example, in the case of India, projects costing only Rs.18,000 millions have been included, even though details have been worked out for projects costing Rs.32,000 millions. Moreover, the bulk of the projects included in the Plan are already under way, some being more advanced than others in their distance from completion. In the case of India, schemes already in hand account for 87 per cent., while the corresponding figures for Pakistan and Ceylon are 58 per cent. and 84 per cent. respectively. As the Report points out, " these developmental programmes are not a leap in the dark; in great part they involve a speeding up and broadening of work which is already in progress." There can be no doubt, therefore, about the validity of the conclusion reached in the Report " that the development programmes have been framed on a realistic basis."

Broadly speaking, the aims of the Colombo Plan are threefold. First, increased production of the essentials of life, such as food and clothing, in order to halt the post-war fall in the standard of living and raise it by a modest figure. Secondly, increased production of raw materials and light manufactured goods that would lead to diversification of economies, reduce dependence on imports and increase availabilities for exports, thereby enabling the region to play its traditional role in the system of multilateral trade linking Europe with the Western hemisphere. Thirdly, increasing the productive equipment of the region in the basic fields such as power, transport and technical services, so as to enable the countries concerned to accelerate their economic development and facilitate the participation of private enterprise, both domestic and foreign, in the process.

The Plan covers a period of six years, beginning with July, 1951, and is expected to cost £1,868 millions. It includes developmental activities in all the sectors of the national economies concerned but pertains only to the Commonwealth countries in the region. The cost of the Plan in respect of its territorial distribution is as follows:

Country	Cost of Plan	Per cent. of total cost for the area	Expenditure per capita
	£ millions	%	£
India	1,379	*73·8*	4·0
Pakistan	280	*15·0*	3·4
Ceylon	102	*5·5*	14·0
Malaya and British Borneo..	107	*5·7*	15·2
Total	1,868	*100·0*	4·2

India, naturally, claims the largest share, accounting as it does for a little more than 78 per cent. of the total population of these countries. The much larger *per capita* figures of expenditure proposed for Ceylon, Malaya and British Borneo, are largely due to their comparatively higher levels of national income and, therefore, of saving capacity. The over-all average of expenditure proposed *per capita* in all these commonwealth countries taken together comes to about £4 4s. over the entire period or not more than 14s. per year, which is another indication of the essentially modest and realistic character of the programmes involved.

Analysis of Programmes

The proposed distribution of this expenditure of £1,868 millions among the different economic sectors is given in the table below:

Economic Sector	Cost	Per cent. of Total Cost
	£ millions	%
Agriculture (a)	595	*32*
Transport and Communications	627	*34*
Fuel and Power	122	*6*
Industry and Mining (b).. ..	194	*10*
Social Capital	330	*18*

(*a*) Including multi-purpose projects. (*b*) Excluding coal.

As the item "Agriculture" includes also multi-purpose projects, it accounts for a goodly share of the expenditure that will be incurred on the production of hydro-electric power; to this extent, the figures given under "Fuel and Power" constitute an under-estimate.

A more detailed breakdown of the expenditure on "Transport and Communication" is available for India, Pakistan and Ceylon, and is as follows:

	£ *millions*
Railways	383·9
Roads	100·7
Ports and Harbours	35·8
Others, mainly Communications ..	86·1
Total	606·5

Similarly, a more detailed analysis can be made of the expenditure on "Social Capital," not only for the three countries included in the preceding table but also for British Malaya. The relevant figures are given below:

	£ *millions*
Education	131·0
Health	36·9
Housing	59·2
Others	99·1
Total	326·2

It is clear from the figures given in the preceding tables that the dominant note of the Colombo Plan is the development of what the United Nations Sub-Commission on Economic Development has called the "economic and social overheads of economic development." As the Report on the Colombo Plan points out:

> It is the early stages which are the most costly and difficult. Basic services—railways, roads, ports and harbours, electricity and irrigation—require a vast capital investment and must be undertaken before production can be increased significantly. In democratic countries a certain minimum of social services must be provided concurrently with programmes for economic development if these are to command the popular support without which they would be frustrated.

Without such basic development it is not possible to bring about the utilization of the many resources—both natural and human—of these countries. That is why industrialization proper plays such a comparatively unimpor-

tant part in the Colombo Plan. This does not mean that industrialization is to be neglected; it is only a realistic recognition of the economic fact that industrialization on a comprehensive scale has to be preceded by an adequate development of power and transport. Recognition of this by the Asian Dominions is a significant proof of the practical manner in which they are approaching the problem of economic development, and ought to set at rest any lingering doubts which foreign critics may still have that the Colombo Plan is just an unrealistic and uneconomic scheme aiming at immediate industrialization.

At the same time, the Plan does aim at an immediate improvement in the supply of food and raw materials in the area. This is to be achieved not only by the completion of the vast irrigation and multi-purpose schemes already in progress, but also by a number of smaller schemes in the case of India such as minor irrigation works, supply of improved seed, supply of fertilizers, etc., while in the case of Pakistan, special attention is being paid to the problem of water-logging. As a result of these measures in the field of agriculture, it is expected that, in India, there will be an increase of 3 million tons in food grains, 195,000 tons in cotton, 375,000 tons in jute, and 1·5 million tons in oil seeds. In Pakistan, it is expected that there will be an increase of 2·5 million tons in cereals and pulses, 792,000 tons in oil seeds, 713,000 tons in sugar cane, 98,000 tons in jute and 52,000 tons in cotton. In Ceylon and Malaya, substantial increases in the production of food grains, especially rice, are expected by the end of the six-year period.

Industry has not been entirely neglected. Pakistan has provided in its plan for the establishment of six jute mills, 24 textile mills and one paper mill, while India has laid special emphasis on raising its steel output, particularly through the modernization and expansion of existing steel plants as well as by the construction of additional capacity for an annual output of 500,000 tons. Ceylon is interested in setting up industries for the processing of local agricultural products and raw materials, while in Malaya and Singapore industry does not figure at all. The total amount expected to be spent on industry in all the areas taken together is only £194 millions, and this includes mining as well.

As regards social capital, it must be confessed that it does not occupy as important a place as one would expect in

a region with such vast human resources needing development as the Asian part of the Commonwealth. Whereas Ceylon and Malaya between them provide for a *per capita* expenditure of £4 12s. 4d. on social capital, the corresponding figures for India and Pakistan are only 12s. 7d. and 7s. 7d. respectively. It must be added that these figures do not take into account the considerable expenditure which is already being incurred, especially in India, on education and health, by State Governments. All the same, there is no doubt that considerable scope exists for an increase in expenditure on social capital in both India and Pakistan; evidently, the absence of any direct financial return and, even more, the difficulty of getting finance are standing in the way.

Scope for Private Enterprise

Because of the predominance of irrigation, hydro-electric power, railways, roads, and communications in the Colombo Plan, it is inevitable that the emphasis is on public rather than on private investment. But this does not mean that there is any prejudice against private enterprise in the countries concerned nor that there is no room for private enterprise in their economic development. On the contrary, the public investment is intended as a necessary prelude to the expansion of profitable private investment. As is stated in the Report itself:

> Throughout these countries, public development paves the way for private investment... In the long run, when the emphasis of the investment programmes changes from basic development to investment in industry and commerce, the need will best be satisfied by private capital. Indeed the progress of these countries in later years will depend largely upon the existence of a favourable atmosphere for private foreign investment. Whilst at present the scale of private foreign investment is small in relation to capital needs, all the countries are conducting their policies towards foreign investment in a manner which seeks to build up this favourable atmosphere.

There should therefore be no misunderstanding that the Colombo Plan is antagonistic to private enterprise. The facts are exactly to the contrary. In India, for example, even in the period of the present Plan with its emphasis on public investment, it is expected that net domestic private investment will be of the order of Rs.1,600 millions or £120 millions a year in the early stages, rising progressively to an annual rate of

Rs.2,600 millions or £195 millions at the end of the six-year period, and to a much higher figure in subsequent years.

Private foreign capital is also entirely welcome. Thus, the Prime Minister of India in a statement in Parliament on April 6th, 1949, asserted: "Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country on the scale we wish, but also because in many cases scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital"; and promised that remittance facilities for both profits and capital would be available to foreign investors, that no restrictions or conditions will be imposed that are not applicable to similar Indian enterprise; and that, in the unlikely event of compulsory acquisition of foreign as of national enterprises, compensation would be paid on a fair and equitable basis, reasonable exchange facilities being provided for the remittance of proceeds. Making a specific reference to British capital, Pandit Nehru stated that "there is and will still be considerable scope for the investment of British capital in India," and gave the assurance: "The Government of India has no desire to injure in any way British or other non-Indian interests in India and would gladly welcome their contribution in a constructive and co-operative role in the development of India's economy." It may be added that there has been a welcome inflow of British capital into India during the last two years. Thus, economic development in India, as visualized by the Indian Government, contains an honourable and important place for private enterprise, both domestic and foreign, though the Colombo Plan necessarily deals mainly with public investment because of the nature of the works to be carried out in the first six-year period.

The Population Problem

I shall deal with the other criticism of the Plan that is usually made before proceeding to consider its most important aspect: that of its implementation. The belief is often expressed that population is growing so fast in Asia that no amount of economic development would succeed in achieving higher standards of living and that India, Pakistan and Ceylon are classical examples of the Malthusian Law at work in the contemporary world. There can, of course, be no question that the rate of increase in population is quite high in these

countries. I am also prepared to concede that it will take time for the birth-rate to be influenced by the higher standards of living resulting from economic development and that, in the meanwhile, increases in population may well threaten the very emergence of the higher standards of living on which theoretical economists pin so much of their hopes for the solution of the population problem.

Obviously, therefore, a direct attack has to be made on the birth-rate in these countries. I want to suggest, however, that such an attack has already been launched, for example, in India. The age of marriage has been steadily rising in India during the last three decades and is likely to rise still further. Spinsters are no longer conspicuous by their complete absence in Indian society, especially in its urban and educated sectors. Economic independence, afforded by greater opportunities of employment for women and changes in legislation conferring greater property rights on them, has begun to have its inevitable effect on the willingness to bear children; while the remarkable increase which has taken place in women's education in the last two decades has further strengthened this tendency.

At long last, the politicians have also begun to perceive the need for family planning in India. Mahatma Gandhi's preference for self-control in opposition to birth-control, which seemed to stand in the way of Governmental action in the population field, has now been succeeded by a more realistic attitude, thanks mainly to the impact of food shortages on India's economy. In fact, India's Prime Minister, Pandit Nehru, has recently and on several occasions given public expression to his anxiety at the rapid rate of population growth in his country and has put in a vigorous plea for family planning in India. It is believed that serious thought is being given to this question by the Indian Planning Commission, of which the Prime Minister himself is chairman. One can therefore safely expect in the near future official encouragement to family planning and control of births in India. I am confident that the population problem is not going to stand in the way of my country's realizing dividends from economic development. Given the implementation of the Colombo Plan, I am sure there will ensue a rise in the average standard of living; and, in turn, this will make for increasing productivity on the one hand and declining rate of increase in population on the other.

The criticism has also been made that the Colombo Plan does not deal with the problems of either manpower or migration of labour that will arise out of any attempt to implement it, or with its social implications. This criticism, while quite valid in itself as applied to national plans, is not so in respect of the Colombo Plan, for the latter did not set out to deal with all aspects of economic planning. All that it aimed at was to bring together realistically conceived projects for economic development in the countries concerned, to examine their financial implications, and to estimate the extent to which help from outside was necessary in respect of both their technical and financial implementation. The other aspects, such as social, manpower, labour, and other implications, are being examined in the countries concerned. In a country like India, active steps are also being taken to deal with them on their several fronts. I suggest, therefore, that the absence of detailed references to social implications in the Colombo Plan need not detract from its effectiveness for bringing about economic development.

Execution of the Plan

The most important aspect of the Plan, however, is how it is to be achieved. How do the countries which took part in the Colombo Conference propose to implement the Plan? The Plan requires technical personnel, both experts and workers; and it requires finance, both domestic and foreign. I propose to deal with the former aspect first.

Manpower

It is obvious that, in addition to those domestically available, a number of experts will be required from abroad; in addition, selected persons from the countries concerned will have to be sent abroad for training. Neither of these would be possible unless countries in a position to offer both experts and training facilities are willing to do so. The Commonwealth countries who assembled at Colombo promised to try their best to make such facilities available, over and above the facilities available to under-developed countries through President Truman's Point IV and the United Nations Technical Assistance programmes. Experts required cover a wide range of subjects and would number an average of 500 to 750 persons a year. The numbers to be sent abroad for training

are much larger, India alone, for example, having plans to send abroad over 3,000 students in the next six years.

The Plan also includes proposals for the expansion of training facilities within the under-developed countries themselves. Active co-operation is necessary in the technical field, and the Commonwealth Governments have set up a Council for Technical Co-operation with an office in Colombo for securing this objective, and a sum of £8 millions has been jointly placed by them at the disposal of the Council for this purpose for a period of three years commencing July 1st, 1950. Fellowships have been offered by Australia and Canada, and selections of scholars are being made. The Plan has started operations on the technical side. It is important to ensure that the requirements of the rearmament programme currently under way in most of the Commonwealth countries do not interfere, and, in fact, are prevented from interfering, with the supply of these facilities.

Financial Requirements

The more important question, however, is that of finance. How are the countries concerned going to find the finances necessary for implementing the Plan? We have already seen that the cost of the developmental schemes included in the Colombo Plan comes to a total of £1,868 millions. To this has to be added the net balance-of-payments deficits which the countries concerned will be incurring during the six-year period covered by the Plan, due either to the import requirements of private industry or the extra requirements of consumption goods generated by the additional purchasing power created by the developmental programmes. The total finance thus required comes to £2,114 millions. The table opposite gives the distribution of this figure by internal and external finance.

Internal Sources of Finance

It will be seen that a little less than 50 per cent. of the finances required is expected to be secured domestically. The bulk of this is to be found by the Governments concerned from tax surpluses and loan proceeds, which of course is to be expected in view of the fact that the programme is largely concerned with public investment. In every case, it is proposed to raise a part of the funds required by additional taxation.

The principle of financing development by taxation is somewhat unorthodox and would be regarded as unusual in a developed economy. But in countries where the national incomes are low and, further, are spread over a large number of people, voluntary savings cannot meet developmental requirements, and it becomes necessary to resort to taxation. The Indian Government have already implemented this part of the programme. Replying to the budget debate in the Indian Parliament on 14th March, 1951, the Finance Minister stated that " the purpose of the budget is to give us a good start off for our next five or six years' development." Accordingly, additional taxes have been imposed with a view to raising part of the funds required for economic development; it may be added that the bulk of the additional taxation thus imposed is indirect and falls on the low income groups who otherwise would be making no contribution to the financing of economic development. The domestic loan programmes provided for in the Plan are modest and well within realization. It can be asserted therefore that, as far as domestic finance is concerned, there is every chance of the Plan being implemented in practice.

	Internal £m.	External £m.	Total £m.
India	772	818	1,590
Pakistan	151	145	296
Ceylon	61	60	121
Malaya and British Borneo	46	61	107
Total	1,030	1,084	2,114

External Finance

As regards external finances the amount required over the six-year period is £1,084 millions. The special feature of this requirement is that it takes into account expected balance-of-payments deficits during the period and partly covers the domestic currency requirements of the Plan. This is a very realistic attitude and has the support of the United Nations Sub-Commission on Economic Development, who state:

> Under-developed countries have need for far more foreign exchange than is available through current exports, not only because of import requirements needed for economic development,

> but also because domestic financial resources may, in particular cases, be insufficient to finance programmes of economic development otherwise feasible and may, therefore, necessitate the use of foreign financing for meeting some local currency expenditure.

The Economic and Social Council have passed a resolution on similar lines, while the International Bank have declared their willingness to take into account domestic currency requirements in determining the quantum of their development loans. To my mind, the Colombo Report has stated a fundamental economic truth in asserting that the primary function of foreign investment is " to enable the country concerned to have a larger balance-of-payments deficit than would otherwise be possible." The Report goes on to state :

> At the same time foreign investment can incidentally help to provide the internal finance which the Government need to pay the workers and the contractors for the development programme . . . in one way or another, the foreign investment can serve a double purpose, providing both external finance to meet the balance-of-payments deficit and internal finance for the Government.

That is the reason why the requirement of external finance is placed at £1,084 millions, even though the cost of the imports of capital goods actually required for the Plan comes only to £411 millions; otherwise, private programmes for economic development would have been impossible, domestic finance would have been insufficient, and inflation would have destroyed the very basis of development.

Given the need for £1,084 millions over a period of six years, the next question is how this amount is to be raised. The Government of the United Kingdom have declared their willingness to release a total of £246 millions from the sterling balances of these countries. After this release, the sterling balances remaining to the credit of these countries in March, 1957, would be just sufficient to meet their requirements of currency reserves and would not therefore be available for meeting developmental requirements. The external finance that still remains to be found is £838 millions; and on the finding of this amount depends the successful implementation of the Plan.

The possible sources of supply of this £838 millions are: Commonwealth Governments, private investors and banks in the Commonwealth, the International Bank for Reconstruction

and Development, and the U.S. Government or U.S. Government agencies such as the Export-Import Bank.

As regards the first source, the U.K. Government would obviously be unable to make any amount available additional to its release of £246 millions from sterling balances. In fact, even this release is partly based on the willingness of other Commonwealth Governments like those of Australia and New Zealand to hold a part of their claims on the United Kingdom in sterling balances. I believe, however, that, given the will, it should be possible for the Government of Canada to make a fairly substantial amount available either as loans or gifts to the Commonwealth Governments concerned to meet their requirements of external finance. It should also be possible for the Government of Australia to make some funds available, over and above the indirect help it is affording by holding sterling balances in London. I think it is high time negotiations were started between the Commonwealth Governments concerned to investigate these possibilities.

The second source has more possibilities. London has always been the most important money market for the Commonwealth, and India has in the past frequently resorted to it for financing its developmental programmes. I see no reason why India should not do so again. During the last two years, there has been a substantial export of capital from the United Kingdom to overseas countries; and the recent successful flotation of the International Bank Loan on the London Money Market is further evidence that London is preparing to resume its position as one of the world's most important lenders. I think, therefore, that facilities should be provided by the United Kingdom Government to private investors in Great Britain to subscribe to loans floated by Commonwealth Governments in implementation of the Colombo Plan. There is also great scope for private direct investment from the U.K. into the Commonwealth areas undertaking economic development. In fact, this has already been taking place during the last two years. All that is required is that no obstacles should be placed in the way of the natural development of this trend by any action undertaken by the British Government in the short-period interests of its domestic economic policy. I would strongly emphasize my belief that the private citizen in the United Kingdom should be given an opportunity to participate in the financing of economic development in the Commonwealth, whether by subscribing

to Government loans or by undertaking direct investment. The Colombo Plan should not remain merely at the inter-governmental level for its successful financial implementation.

The third source, *viz.* the International Bank, has also good possibilities. While the Bank's constitution would not allow it to deal with a joint Commonwealth organization such as may be formed under the Colombo Plan, it would undoubtedly continue its policy of considering projects for development put forward by individual Governments for loans. In fact, it has already given loans to India and Pakistan for specific projects and is likely to give more. There are, however, certain difficulties which lessen the importance of the Bank as a source of external finance. Thus, the loans sanctioned by the Bank are small in amount; the rate of interest charged is high in comparison with the meagre financial return accruing to the basic development schemes contained in the Colombo Plan; while some of the schemes included in the Plan, such as those dealing with social capital, would be outside the scope of the Bank's operations. The Bank cannot, therefore, provide the bulk of the external finance required for the Colombo Plan.

Importance of U.S. Co-operation

The only other source left is the United States of America; and the U.S.A. can certainly do it. The total amount required, even assuming that the three sources mentioned above make no net contribution, is only £838 millions or \$2·3 billions, or an average of \$390 millions a year. The comparatively modest character of these figures becomes quite clear when one recalls that the President of the United States has recently recommended to Congress a programme of foreign aid for the single year ending June, 1952, a sum of \$8·5 billions, of which \$2·3 billions is for "economic assistance primarily to support expanded defence efforts abroad." The President has, in his message, referred to the "encouraging proposal, affecting a number of these countries, in the Colombo Plan for technical assistance and economic development worked out under the auspices of the British Commonwealth"; but he has refrained from putting forward any proposals for U.S. assistance in implementing the Plan. It is true that the President's proposals contain economic aid to the Middle East to the extent of \$125 millions and to Asia to the extent of \$375 millions, of which \$112·5 millions is for Korea and the bulk of the

remainder for economic support for defence programmes in Indo-China, Formosa and the Phillipines.

The under-developed countries of the Commonwealth, however, do not figure in the President's programme of financial aid to overseas countries. I can only express the hope that the question will not be allowed to rest there but will be taken up by the Commonwealth Governments as a whole with the United States Government. The Asian Dominions may not find it prudent for the moment to take positive sides in the cold war, but there can be no doubt as to where their sympathies and affinities lie, nor is there any doubt about the importance of their stability and development to the cause of the Western Powers.

It is high time, therefore, that negotiations were started between the Commonwealth Governments which participated in the Colombo meeting and the United States Government for financial aid to meet at least a part of the $2·3 billions spread over six years which is required for implementing the Colombo Plan. I would, in fact, urge on the Commonwealth Governments to set up a joint agency to deal with financial co-operation as they have already done for dealing with technical co-operation under the Plan. Without such a Council for Financial Co-operation, it would be difficult to bring U.S. finance into the implementation of the Colombo Plan, especially in view of the independent foreign policy followed by the Asian members of the Commonwealth and the difficulties created thereby in bilateral financial deals between them and the United States. Without U.S. finance, it would be difficult to realize even the modest objectives proposed under the Colombo Plan; and yet no steps have been taken by the Commonwealth Governments in regard to this matter, either individually or collectively. I suggest that it is high time that this question is taken up, and on a co-operative basis. I suggest that a special meeting of the Commonwealth Finance Ministers be immediately convened in London for this purpose. Until we know what help, if any, will be forthcoming from the United States Government, the Colombo Plan will remain largely a paper plan. And this would do more harm to peace and stability than if it had never been brought into existence with such a fanfare of trumpets.

I am fairly confident that, given a co-operative approach on the lines suggested, the U.S. Government will not only be willing to help but will also find it politically easier to do so

than giving aid on an individual basis to India or Pakistan or Ceylon. If negotiations can be successfully concluded for the grant of, say, $1·8 billions or $300 millions a year for six years to a joint Commonwealth organization, including, if necessary, U.S. representatives, for undertaking the financial implementation of the Colombo Plan, it would mean the definite realization of the economic development programmes outlined in the Plan. If it is not possible to get such help from the United States, it is high time that were known so that the Commonwealth Governments concerned could know where they stand and prune down their programmes still further so as to fit them with the resources that are actually available. The psychological effect of a big Plan that fails to be implemented is far worse than that of a modest Plan that is actually realized ; and nowhere in the world is this more true than in the Asia of today, where people are sick of paper plans and promises and are clamouring for results.

The Colombo Report specifically stated that " the task of providing financial support for the development of South and South-East Asia is manifestly not one which can be tackled by the Commonwealth alone " ; and yet the Commonwealth has done nothing so far to enlist this aid from outside itself. The invisible host has to be asked to reveal himself; and if he wants to do so on conditions, he must be asked to state those conditions. The initiative really rests with the Government of the United Kingdom. It is for His Majesty's Government, as the leader of the Commonwealth, to take up this question of extra-Commonwealth aid and initiate negotiations with the United States Government regarding the aid that the latter can give in the implementation of the Colombo Plan. Only then would the British Government have justified the hopes they have created among the peoples of the Commonwealth by their vigorous sponsoring of the Plan and their constant talk of the need for economic development.

The Situation To-day

Before concluding this article, it is necessary to make a brief mention of the impact of the post-Korean situation and of rearmament programmes in the West on the implementation of the Colombo Plan. On the side of external finance, the situation has eased. India, Pakistan, Ceylon, Malaya and British Borneo have all improved their balance-of-payments position during the last twelve months and have added substantially to their sterling balances. But on the side of

actual imports of capital goods and essential consumer goods, the position has grown significantly worse. These countries find it very difficult to get the imports they require for their development, even though they are in a much better position to pay for these imports than they were before. Unless some positive steps are taken by the Governments of the industrialized countries concerned to take into account the developmental requirements of the under-developed countries in the planned utilization of their industrial potential and of the raw material supplies and sources controlled by them, the implementation of the Colombo Plan is going to be extremely difficult, if not actually impossible.

In this context, the industrialized countries must also remember that, in spite of the supplies of minerals and raw materials that they control, they are largely dependent on the under-developed countries for their supplies of certain essential raw materials and mineral products. Failure on their part to supply these under-developed countries with essential capital and consumer goods would not only lead to political instability and economic unrest in these countries but would also threaten the continuance of the raw material supplies on which the Western Powers are so dependent for the success of their rearmament programme. It is therefore in the mutual interest of the industrialized countries of the free world and of the under-developed countries that satisfactory arrangements be made for ensuring the availability of essential capital and consumer goods to the latter. This is especially true of the Commonwealth countries, and even more so in the context of the Colombo Plan. I suggest therefore that here is another subject on which immediate consultation, co-ordination, and co-operation among the Commonwealth countries is necessary if the success of the Colombo Plan is not to be irretrievably jeopardized.

It would be useful if the Commonwealth Governments could set up a Commonwealth Essential Supplies Council to facilitate the implementation of the Plan, in addition to the Council for Technical Co-operation that already exists and the Council for Financial Co-operation, the creation of which has been suggested earlier in this article. It would also, in my opinion, be necessary for all these three Councils to secure the closest co-operation of the United States, the world's largest supplier of technicians, capital and essential goods. Unless this is done the edifice will not be complete and the Colombo Plan will fail to be implemented.

Conclusion

I must confess to a feeling of uneasiness about the meagre character of the progress achieved so far in regard to the implementation of the Plan. The Colombo Plan required for its success two things: national effort and Commonwealth effort. The former is in operation; national plans of development are already under way, and determined efforts are being made to secure larger volumes of domestic finance. But as regards Commonwealth effort, progress is slow. Commonwealth effort lay in three directions: technical skill, finance and supplies. Something is being done about the first of these items, but nothing appears to be done about the remaining two. Even the machinery for joint consultation and effort is incomplete, there being no Commonwealth Councils dealing with finance and supplies for the implementation of the Colombo Plan. Unless the machinery is completed, and unless it functions actively in all the three fields, *viz.* technical skill, finance and supplies, there is but little chance for the Plan as such to succeed. And the grand conception of a multi-lingual and multi-racial Commonwealth working in co-operation to raise living standards within the less developed parts of its area which underlay the Colombo Plan would really have been in vain.

In concluding this article, I can do no better than to quote the concluding paragraph of the Report on the Colombo Plan:

"And speed is necessary. In a world racked by schism and confusion it is doubtful whether free men can long afford to leave undeveloped and imprisoned in poverty the human resources of the countries of South and South-East Asia which could help so greatly, not only to restore the world's prosperity, but also to redress its confusion and enrich the lives of all men everywhere."

V. K. R. V. Rao.

Director, Delhi School of Economics.

June, 1951.

Local Finance

By D. N. Chester

EVEN if it were only a matter of the amount of money involved local finance would be a subject worthy of consideration: for total expenditure on revenue and capital account by local authorities in England, Scotland and Wales is now running at over £1,200 millions a year for education, health, housing, police, roads and other non-trading services. If those trading services which still remain are included, local government must be handling yearly a total sum approaching £1,500 millions.

This is a lot of money even in terms of present-day figures for public finance. But local finance raises issues much wider than normally fall within the consideration of public finance as a branch of economics. Local rates, for example, are not merely a tax to be considered alongside other forms of taxation and judged accordingly: they constitute a tax upon the yield of which the independence of local government largely depends. Local government is not a branch or agency of the central government, nor is it, of course, local self-government in the sense of the power enjoyed by States in a federal system. Local authorities are directly-elected bodies and an important feature of our system of representative democracy. A system of local finance must therefore satisfy two criteria: does it enable local government to function properly, and is it financially equitable and efficient?

Trend Since 1914

The best approach to a consideration of the present position of local finance is to examine the trend since 1914. Local authorities have the proceeds of only one tax—local rates—at their complete disposal. Rates are levied on the rateable value of occupied property, the valuation being based on the annual rent. The trend of the main figures for all local authorities in England and Wales since 1914 is shown in the first table overleaf.

We hear many complaints about the burden of local rates and local Councillors certainly consider that the levies which they feel able to make are very limited in relation to the rising trend of expenditure. True, there has been a steady increase since the turn of the century, with a quite sharp

increase since 1939. But the increase in recent years has certainly not kept pace with the trend of prices or of working class incomes. In terms of the national income, local rates represented less than 3 per cent. in 1950, as against over 4 per cent. in 1938 and about $3\frac{1}{2}$ per cent. in 1913–14.

LOCAL AUTHORITIES—ENGLAND AND WALES

Year Ending 31st March	Rateable Value	Rates Collected	Average Rate Collected per £ of Rateable Value	Rates Collected per head of Population
	£m.	£m.	s. d.	£
1914	211·6	71·3	6 9	1·95
1920	220·7	105·6	9 7	2·82
1930	(a)284·9 (a)255·3	156·3	11 7	3·95
1940	318·8	200·6	12 7	4·85
1950(b) ..	325·3	(c)278·0	(d)17 1	6·50

(*a*) The smaller figure is after the de-rating of agricultural land and buildings, industrial premises and freight transport properties.
(*b*) Provisional figures.
(*c*) Excluding £14 millions paid in lieu of rates by the British Electricity Authority and the British Transport Commission.
(*d*) Likely to be about 19/- in the £ in the current year.

In contrast, the central government has been able to expand its revenue at a pace which makes the increase in local rates look insignificant. The following table shows the increase in the yield of certain taxes :—

	1913–14(a)	1938(b)	1950(b)	INCREASE 1950 over 1913–14		INCREASE 1950 over 1938	
	£m.	£m.	£m.	£m.	%	£m.	%
Local Rates	79	211	338	259	*328*	127	*60*
National Taxes—							
Income Tax ..	44	312	1,420	1,376	*3,127*	1,108	*355*
Profits Tax ..	—	15	264	264	—	249	*1,660*
Tobacco	18	84	613	595	*3,306*	529	*630*
Beer	14	66	266	252	*1,800*	200	*303*
Entertainment ..	—	8	44	44	—	36	*450*
Purchase Tax ..	—	—	299	299	—	299	—
Total all National Taxes	198	876	3,739	3,541	*1,788*	2,863	*327*

Source:
(*a*) Statistical Abstract for the U.K. The figure of local rates is for England, Scotland, and Wales, but includes Ireland for national taxes.
(*b*) National Income and Expenditure White Paper, 1950.

It is a striking fact that as recently as the beginning of the First World War local rates showed a much larger yield than any national tax, being a good deal greater than the income and super tax combined. Since that date, and particularly as a result of the Second World War, the yields of national taxes have expanded very many times more than local rates. True, local expenditure has not increased to anything like the same extent as national expenditure. Nevertheless, it has increased much more than the yield of local rates indicates and the difference has in large part been made up by grants out of national taxation. And it is possible, had local taxation been more expansive and buoyant, that the hospital service would have developed under local authorities and not under the non-representative board financed from the Exchequer.

Local authorities draw their tax receipts from the same reservoir as the Chancellor of the Exchequer draws his taxation —the national income. The basis of local rates must, therefore, impede the increase in the yield at an earlier point than is the case for many of the national taxes. The reasons for this are fairly obvious. The Chancellor of the Exchequer has at his disposal two main types of tax—one group related directly to the income of the payer and the other group being a charge on what may be termed "necessary luxuries," e.g. beer and tobacco. The Finance Committee of the local authority has only one tax—a tax which bears little or no relation to the income of the payer and, so far as houses are concerned, adds to the cost of a necessity.

One must not push the contrast too far for to some extent rates are a method of charging for services provided for property in the area—cleaning and maintenance of streets, sewage disposal, police and fire protection, town and country planning, etc.—and there is no more reason why they should be related to income than, say, the cost of house repairs. They are a charge which arises from the presence of houses and, therefore, a necessary part of the annual cost of a house. But it is difficult, for example, to argue in this manner about the large expenditure on education and on some of the local health services. Modern taxation policy certainly indicates that expenditure of this kind should be met by taxes which pay regard to earnings and avoid raising the price of necessities. A tax which charges the same amount on the occupier of a house, whether he be an old age pensioner or a highly-paid worker with one or more of his children also earning, is bound to

run into difficulties. The limit of its yield will tend to be fixed by what the poorest occupiers can bear and this will be very much lower than what could be obtained by a more sensitive tax basis. And at a time when public policy, rightly or wrongly, is directed at keeping down rents, either by restricting increases or by subsidies, it may appear strange that local authorities may increase their income only by a tax which to the great majority of householders appears as an addition to their weekly rent.

Slow Growth of Rateable Value

It is a striking and disturbing feature of the recent history of local finance that the basis on which authorities levy their only tax should have shown such a slow increase. The total value on which rates are levied is now little more than 50 per cent. greater than it was in 1914, notwithstanding the very much greater increase in prices and in the national income during that period. In some part this may be a reflection of the social phenomenon that people tend to spend a decreasing proportion of their income on rent as their total income increases. But it is mainly the result of Government policy and the direct and indirect results of certain social legislation.

The main limitation has been the Rent Restriction Acts, which froze the rents of most houses either at their 1914 or their 1939 level. Immediately after both World Wars, local expenditure rose markedly because of the increase in wages and prices—but the major part of the rateable value from which they should have received a corresponding automatic increase in income was artificially depressed. The other big element has been the policy to de-rate certain classes of property. In 1923, the value of agricultural land and buildings on which rates were levied was reduced by a quarter, and by a further quarter in 1929. As the value had been reduced to a half in 1896, the final quarter de-rating meant that after 1929 agricultural land and buildings ceased to be rateable. In 1929 also, factories and other industrial premises and property used for railways, docks and canals were exempted to the extent of 75 per cent. of their rateable value.

It is difficult to estimate what would be the present total rateable value of all local authorities if this legislation had not been passed. As houses represent 50 to 80 per cent. of the rateable value of different authorities, even a comparatively

small increase in the general level of rents would have made an appreciable difference. It is somewhat easier to estimate the loss due to de-rating. If industrial and freight transport premises ceased to be de-rated, total rateable value would go up by about £30–£35 millions. Agricultural land and buildings (excluding houses) have not been assessed since 1929 and therefore there is no up to date information on which to base an estimate. But using the 1929 figures it would appear that the complete abolition of de-rating of this kind of property would add about £25–£30 millions to total rateable value in England and Wales, whilst a return to the pre-1929 position would add about £7 millions. Altogether, then, the concessions made by the Government to industry and agriculture lowered total rateable value in England and Wales by some £35–£65 millions, according to the date from which the concessions are calculated. It will be seen, however, that though the sum is appreciable it does not account for the slow growth of rateable value as measured by, say, the growth in the money national income.

Other contributory factors are the absence of a general revaluation since 1934 and the policy of under-assessment adopted in many areas, particularly of houses built since 1920. A new valuation is now being undertaken by the Chief Valuer of the Board of Inland Revenue to whom the task was transferred in 1949 from the rating authorities. It is too early to say how much the aggregate rateable value may be increased by this revaluation but a further £50 millions is possible and some have suggested a much higher figure.

It is possible to argue that in so far as most ratepayers for one reason or another benefit from low rateable value, the question of increasing it is largely academic: for if a local authority wishes to raise £2 millions it will have to levy a rate of 20/- in the £ if the property in its area is valued at £2 millions, and 10/- in the £ if the same property is valued at £4 millions, but the amount paid by each ratepayer may be exactly the same. There is something in this point; but it is not an argument that can be pressed very far, for the concessions have not been spread equally over all classes. Factories, mills and workshops have gained substantially, while shops, offices and commercial premises have continued to pay rates on their full value. In the rural counties, the farmer with large holdings has gained and the recent considerable increase in his income has not been reflected in the rateable value

of his houses. The amendment or abolition of de-rating would, therefore, involve some redistribution of the rate burden.

Moreover, in any form of taxation there is undoubtedly an increasing reluctance to raise the rate of tax, and happy is the Treasury whose receipts from a tax rise without the need for changing the levy. The Councillor's reluctance to impose, and the ratepayer's to pay, an increased local rate levy are encouraged by the form in which the levy is stated—at so much in the pound. This really means per £1 of the annual value of the property occupied and, of course, is in no way directly related to £1 of income. There is no reason why the rate should not be 40/-, 60/- or 100/- in the £. But the use of the same formula for local rates as for income tax undoubtedly constitutes an added psychological barrier as the levy gets nearer and nearer 20/- in the £.

Increased Exchequer Grants

Had, therefore, local authorities been able to impose a tax whose base had at least kept pace with price changes (as would, for example, an income tax), or had their only tax base not been directly or indirectly kept down by legislation, they would undoubtedly have been able to raise a larger sum on their own. As it is, they have been driven to rely more and more on grants from the Exchequer. This is shown by the table opposite.

The striking feature of the table is the increasing proportion of the total which has been obtained by way of grants from the Exchequer. In 1948–49, grants were equal to rates as a source of income, whereas they were less than a half of the receipts from rates in 1920, and under a third in 1914. Provisional figures for the current year suggest that Exchequer grants may now exceed the yield of rate income.

This general picture conceals wide differences both as between different services and between different local authorities. Taking first the different local services, it can be said that but for education the general picture would be very different. The budgets of the County and County Borough Councils are now dominated by education expenditure, which has shot up in a remarkable way since the end of the War. Expenditure out of the rates on education is now about one-third to one-half of an authority's rate income. Even so, in 1948–49, Exchequer grants in aid of education were £133

millions, whilst the rates bore £94 millions. The Ministry's estimates for 1951 indicate a further rise in local education expenditure and a further rise in the Exchequer grant. About half the total sum received in Exchequer grants is now in aid of education. In contrast, expenditure on libraries, the cleaning, lighting and maintenance of streets and local roads is met almost entirely out of local rates.

SOURCES OF INCOME

Revenue Accounts(a) *of all Local Authorities in England and Wales*

Year Ending 31st March	Total Receipts from Rates, Grants and all other sources	Rents, Fees, etc.	Rates	Grants	Total Exchequer Grants(b)
	£m.	%	%	%	£m.
1914	105	*10*	*68*	*22*	22·5
1920	175	*12*	*61*	*27*	48·0
1930	313	*16*	*50*	*34*	107·0
1940	445	*14*	*45*	*41*	181·1
1949(c)	686	*18*	*41*	*41*	284·4

(*a*) Excluding Trading Services, except in so far as any profit was transferred to or any loss was charged against the General Rate Fund.

(*b*) This column includes some items which are not grants but payments made by the Exchequer for services which local authorities are carrying out but for which a central Ministry is wholly responsible.

(*c*) Last year for which full figures are available.

So far as different local authorities are concerned, the grants may be divided into two broad categories—those which do and those which do not vary according to some index of local needs and means. The police grant, for example, is the same 50 per cent. of expenditure for all authorities, whereas the main education grant contains a formula related to resources and may fall well below 50 per cent. or rise above 60 per cent. of expenditure according to the authority. But the recently established Exchequer Equalization grant is the main influence in deciding the proportion of an authority's total expenditure aided by the Exchequer. This grant divides the major authorities into two groups, according to whether their rateable value is above or below a standard set by the national average. Only those Counties and County Boroughs with a rateable value below the national average receive an Equalization grant. Their grant is roughly proportional to the extent of their deficiency in rateable value in relation to the national average.

The effect of the grant is as though the Treasury had become the occupier (and, therefore, the ratepayer) of property in the area of a value sufficient to raise the total rateable value of the area up to some agreed national minimum. In this way, the Treasury bears a part of all the authority's expenditure which would otherwise have fallen on the rates. A good deal of this expenditure is the residue after specific Exchequer aid has been deducted, in which case, the Equalization grant raises the proportion borne by the Exchequer.[1] Thus, the grant towards police expenditure is a uniform 50 per cent. but the Gloucester County Council, for example, which receives an Equalization grant of about 33 per cent., in effect receives a grant of 66 per cent. towards the cost of its police. In the case of expenditure which receives no specific grant, the Equalization grant is, of course, to that extent a smaller share of the cost of the service. The Equalization grant is not, however, given in respect of individual services but is towards the general revenues of the authority. Nevertheless, it does lend itself to being related to the cost of individual services in a way that the old block grant of the Local Government Act, 1929, did not.

It may be argued that it is right and proper in all respects that local expenditure should be financed to this extent by the Exchequer. For many services now administered by local authorities, such as education, health and police, are services for which the central government must accept a major responsibility for the standard achieved. Hence, the administrative partnership must be paralleled by a financial partnership. Moreover, the national tax system, being much more diverse and therefore likely to be more equitable than the single local tax, should be drawn upon to provide a balanced source of local revenue. And if local government had to rely wholly or mainly on local rates, differences in wealth between areas would leave some local authorities with quite inadequate resources.

There is undoubtedly some truth in these arguments. It is not very profitable nowadays to attempt any refined distinction between the functions of local authorities which are truly local and those which are largely national. But it is clear that the interest of the Government and Parliament in education is necessarily much greater than in the cleaning and maintenance of local streets; and where interest means to a

[1] The effect is most pronounced in education, where the main education grant itself may be above 60 per cent. of net expenditure.

large extent calling the tune, it is proper that Parliament should find a commensurate part of the money. As for inequalities of rate income between areas, it is only necessary to state that the range of rateable value per head is about £3 to £11 in the Counties, and about £4 to £16 in the County Boroughs, to show that something would need to be done about those authorities at the lower end of the range.

It is possible to admit all this and yet still feel a sense of disquiet about the present situation and the possible future trend. For one thing, there is clearly a big difference between a system in which locally-elected bodies have to find the major portion of any increase in their expenditure by increasing their own local tax, and one in which they know that the major part of such increase will be met by the Exchequer. It is a sound maxim of public finance that requires those who will be appreciated for public spending also to be those who will suffer criticism from having to increase taxation, if a proper balance is to be struck between the two. The greater the financial dependence of local authorities on the Treasury the greater will be the temptation to subordinate their activities to Treasury control. And the bad effect on the morale and independence of local councils would tend to emphasize the subordination of local to central government. As a minimum this situation would waste manpower by one set of officials having to check the work of another set. At the other extreme it would greatly increase the almost dictatorial position of the small group of politicians who happened to be in power, emphasize the already strong centralization of authority and decision making, and generally weaken the democratic character of our political system.

Possible Changes

It ought therefore to be an aim of public policy to ensure that the financial conditions in which local authorities operate should encourage a healthy independence. By independence I mean not the ability completely to disregard national feelings and policy but the ability to stand up for their own views and not to have the views of Whitehall forced on them, to be free to experiment with their own resources and to avoid meticulous control devised for accounting reasons. The simplest way of achieving this financial policy would be to ensure that the independent sources of revenue at the disposal of local authorities should be increased so that no service or no

authority should need an Exchequer grant greater than the authority contributes from its own resources. A partial alternative would be to try to provide Exchequer aid in a way that minimizes the need for detailed control and the threat to local independence.

I wish to dismiss at once a possible change which would go a long way to achieve this financial aim: the transfer of local education to the central government. This would reduce local rates by about a third and grants by about a half. Assuming that, say, half the saving in rates were offset by the reduction of the Exchequer Equalization grant by a corresponding sum, the effect on the figures for 1948–49 would have been to alter the proportions in the last line of the table on page 39 in this way:—

1948–49	Percentage of Receipts from		
	Rents, Fees, etc. %	Rates %	Grants %
Actual	18	41	41
After transfer of education and reduction in total Equalization grant	23	53	24

This is a startling transformation and illustrates once again the dominance of education finance. Nevertheless, attractive though the solution may appear to those who are concerned only with figures, it must be wholeheartedly rejected. For, if any service should be kept from being brought wholly under the control of the central government, it is education. The powers of the Ministry of Education are already very great, too great in some directions, but the Ministry, though powerful, cannot get all its own way for it has to deal with locally-elected councils, responsible for the largest and most powerful local authorities. Were the Ministry made wholly responsible for education, including the appointment and dismissal of teachers, ordering of text books, subjects to be taught and method of teaching in all schools, we would have placed a powerful weapon in the hands of any Government inclined to dictatorship. Education must remain a local authority service and a solution to the financial problem be found by other means. Indeed I would go further and say that, as at some not too distant date the question of the return of the hospital service to

locally-elected bodies will come up for consideration, the financial changes should be wider than are necessary to meet the present circumstances of local expenditure and revenue.

The first approach must be to consider whether the sources of revenue directly under the control of the local authority can be increased. And in this connection it must be borne in mind that, in the main, I am concerned not with increasing the total of local and central expenditure on local services but with securing that a much greater proportion of this expenditure should be met from sources which are not under the control of the Treasury. This would not exclude specific grants being given towards services in which it was considered necessary to have a real central-local partnership, but the number of such services should be strictly limited and the grant should not exceed the contribution by the local authority. Nor does it exclude the possibility that the changes would still leave a few authorities in need of a special equalization grant, but the changes would have failed if more than a few authorities were in that position. If locally-controlled revenues could be increased by, say, £150 millions per annum, and grants decreased by that amount, the worst features of the present trend would have been removed.

Judged by the standard of the Exchequer Equalization grant, the authorities most in need of assistance are the County Councils (with the exception of those in the area of the Home Counties) and certain industrial towns. Of the 61 County Councils (excluding London), only 7 fail to qualify for an Equalization grant, *i.e.* 54 have a rateable value below the average[1] for the country. The majority of the Counties qualify for grants of 25 per cent. or higher and of these 7 qualify for grants higher than 50 per cent. London and 28 of the County Boroughs do not qualify for grants, and only one—Merthyr Tydfil—qualifies for a grant of more than 50 per cent. When it is remembered that the Equalization grant goes to reduce the share borne by the authority of the cost of services already specifically grant-aided, it can be seen that any authority which receives a high-percentage Equalization grant is receiving a predominant share of its revenue from the Treasury.

The weak position of most of the Counties is almost wholly the result of de-rating. Here are the facts for certain Counties in receipt of a high-percentage Equalization grant:—

[1] The average is raised by the inclusion of London.

County	Present Equalization grant (approx. percentage)	Rateable value 1947(a)	INDICATED LOSS DUE TO DE-RATING	
			Net annual value of agricultural land and buildings 1930	Rateable value lost due to de-rating of industry and transport (b)
	%	£'000	£'000	£'000
Huntingdon	*45*	277	222	71
Norfolk ..	*49*	1,321	953	115
Anglesey ..	*49*	187	170	9
Cardigan ..	*67*	171	180	5
Montgomery	*64*	174	259	14
Pembroke ..	*57*	293	292	20

(*a*) 1947 was chosen because it was the last year before the removal of the rateable value of railway, canal and electricity properties from the Valuation List under Part V of the Local Government Act, 1948.

(*b*) The estimated loss is obtained by multiplying by three the rateable value of industrial and freight transport hereditaments after de-rating as shown by the 1947 Valuation List.

The figures are only a rough approximation to the total effect of de-rating, for agricultural land and buildings have not been valued for rating purposes since 1929. Since then, some agricultural land has gone out of production; on the other hand, rents have probably risen. But, taking the figures for what they are worth, it is noticeable that in four of the six examples the annual value of agricultural land and buildings no longer rated, plus the rateable value lost due to the de-rating of industrial, railway and canal premises, exceeded the total rateable value of the area for 1947, and, in the other two cases, very nearly approached it. In other words, the effect of de-rating has been to halve the local resources of these authorities.

Most of the County Boroughs in receipt of high Equalization grants have dense working-class populations living in old rent-restricted houses and with only a small amount of valuable commercial and shop property. The de-rating of industry and railways depressed their rate revenues even further. Between April 1st, 1929 and 1930, the year in which de-rating took place, 16 County Boroughs lost more than 15 per cent. of their rateable value and Barrow, Bootle, Burton-on-Trent, Rochdale and Merthyr Tydfil lost more than 20 per cent., whereas their rateable value should have increased because of the building of new houses, etc.[1]

[1] See *Derating* by A. Abel, W. O. Atkinson and C. H. Pollard.

Here, then, is an important issue of public policy which requires consideration. It would be unfortunate, however, if it were posed wholly as a clash between the interests of local government on the one side and of industry and agriculture on the other. In large measure it is an issue between the Treasury and industry and agriculture, with local authorities being used as a somewhat unwilling administrative device. For, as a result of the decision by Parliament to de-rate certain property, the Exchequer has to pay virtually an equivalent sum to local authorities. It avoids appearing to subsidize factories and farmers but gets itself involved in the serious problem of undermining the financial responsibility and independence of local government. The solution is possibly along the line of reversing the 1929 decision, in large part if not wholly, and of dealing with the increased cost to agriculture and industry by way of the income tax. There is possibly around £50 millions in this transaction, a large part of which would be offset by a reduction in the Equalization grant, now running at about £56 millions per annum.

The next possibility is to consider whether there are any taxes at present collected by the Government which might, in whole or in part, be transferred to the local authorities, with a corresponding reduction in Treasury grants. This is not easy, for ideally such a tax should be collectable locally and, if possible, though this is not essential, the rate of tax should be variable locally. Certain taxes are ruled out completely because their collection is confined to a few areas, *e.g.* most of the customs and excise duties, including purchase tax. The taxes which look most promising (with their estimated yield in 1951–52) are: entertainments (£50 millions); stamp duties (£55 millions); liquor licence duties (£5 millions); and motor vehicle duties (£62 millions). In some countries there is a limited form of local income tax. And as I understand that the drinking of beer is widespread—in town and country and in rich and poor areas—and as the tax on it now yields £250 millions, it would appear to be a tax suitable for part at least to go direct towards the maintenance of local services.

Suggestions of this kind are not likely to be very popular in Treasury circles—at least, not at first glance. And indeed many objections can be raised from the viewpoint of both practical administration and high financial policy. In addition, the pressure of other problems, inertia, and the ease with which

grants can be paid, will tend to make Chancellors of the Exchequer avoid the issue as long as possible. But in the long run it cannot be in the interest of the Treasury to raise the increased taxes to pay the increased grants for locally-elected bodies to spend. They will always be torn between being too respectful of local democracy to be good guardians of the public purse, or of being meticulous watchdogs and so undermining the responsibility of local Councils. And there is plenty of evidence to show that local authorities are, with a few exceptions, as careful in spending their own money as is the central government in spending its revenues.

It is probable, of course, that the additional sources of revenue could not be made available to all classes of local authority but only to the major authorities. Fairly wide areas of collection would be required if great disparities between areas were to be avoided. This would almost certainly rule out the smaller boroughs, urban and rural districts. It might also rule out some of the existing major authorities and this is one reason why any consideration of boundary changes ought to go hand in hand with a consideration of the basic finances of local government. The most that one can plead at this stage is that the question should be examined impartially, the administrative difficulties be considered and the whole inquiry be set in the widest framework of public finance and the future of local government.

It may, however, not be possible to deal with the situation wholly by the methods just indicated. A substantial sum may still need to be paid by way of Exchequer grants. I do not doubt this will be so, for the central government are likely, on grounds of general policy, to wish to pay something directly towards the services which they wish to influence as part of their share in an equal partnership. Admitting this to be so, it is still open to question whether the present tendency to give most of the money in the form of a stated percentage of local expenditure is the right policy. It may be inevitable in a period of rising prices and in the case of services for which it is difficult to foresee the trend of expenditure. But there is much to be said for the type of grant the amount of which does not vary immediately and directly with the expenditure of the individual authority. This implies either a grant based on a unit of service (*e.g.* the present grants in aid of new houses, which are at a fixed amount per house), or a grant towards the general revenues of the authority fixed globally according to some such

factor as population, rather like what the General Exchequer Grant would have become had it remained in existence. There is something to be said even for Goschen's ill-fated system of "assigned revenues" for local purposes, providing some of the silly mistakes made in that system (*e.g.* the method of distributing the money) are avoided.

I appreciate that it is easier to diagnose a problem than to find readily acceptable methods of dealing with it; I do not think there is a simple solution or that there is any single remedy. In the end, the most practical politics may be to do something by way of levying rates on a greater proportion of the value of property now de-rated, something by way of one or more new sources of local taxation and something by modifications in the grant system. But there is undoubtedly a problem and it is important enough to deserve more consideration than it is getting at the moment.

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May, 1951.

The Life of John Maynard Keynes*

By The Editor

THE persistent good fortune of Keynes has pursued him beyond the grave and survives in the felicitous choice of his biographer.

We may rejoice in the general teachings of Mr. Roy Harrod as an economist, or in some aspects and on certain occasions we may have questioned them; but, whether we like or deplore them, upon one subject we may all agree: there is nothing dull or uninspired in his writing, he has a prose style which is strong and vital and sometimes distinguished by passages of rare beauty and eloquence. Moreover, as Mr. Gladstone so truly reminds us:

> what we want in a biography, and what, despite the etymology of the title, we very seldom find, is *life*. The very best transcript is a failure if it is a transcript only. To fulfil its idea it must have in it the essential quality of movement . . . Neither love, which is indeed a danger as well as an ally, nor intelligence, nor assiduity, nor forgetfulness of self, will make a thoroughly good biography without this subtle gift of imparting life.

Mr. Harrod in my submission does breathe life into his subject and has accomplished his work with a happy faculty, interpreting Lord Keynes to the world in a book that can hardly lose its charm and freshness with the lapse of time and, by its vividness, may even become one of the classics of English literature. These are no 'three-piled hyperboles.' The amount and variety of material and complexity of the subjects involved made the compilation of Lord Keynes' biography a most arduous task even for the practised historian. Although the book runs nearly to 700 pages and would have gained by compression we never lose the sweep and impression of the whole. One point only we reserve. Mr. Harrod does not always confine his record to *was eigentlich geschehen ist* as the prince of biographers, Boswell, did on every page. A biography must, of course, be analytical; but this implies a distinction between the scientific and the hypothetical and here, it seems, there is a failure of literary severity.

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* Roy Harrod: *The Life of John Maynard Keynes.* (London, Macmillan. 1951. 25/-.)

The author notes in his Preface:

> It may be said that the time has not yet come when we can form a final estimate: we need a longer perspective . . . [Against this] I venture to think that those who come after will be interested in Keynes, not only on account of his teachings and influence, but also for what he was in himself. . . . There are relevant matters of which there is no published record. Many of those who knew Keynes well in his early days may have passed from the scene in ten or twenty years from now.

To these views many will accord a most hearty assent and consent.

Keynes was not only an originator of thought, he was also a very able expositor who stimulated others by the glow of his active and comprehensive curiosity and illumined wide territories for them to annex and make their own. He had an ingenious forward-reaching mind and was one of those spontaneous, energetic, quick-thinking men who make a stir wherever they go. We do not vouch for the unerring wisdom of all that he did, still less of all his methods of doing it; on occasion he was deplorably rude, nor was his professional influence uniformly beneficial. But the world is a different place on his account, and he certainly ranks as one whose writings mark an epoch in the development of economic thought. He was, moreover, much more than an economist and writer of note. Between the two World Wars he had varying experience as a company director in London and notably successful experience as an active lecturer and a man of affairs at Cambridge; he was a votary of the arts; he held high office under H.M. Treasury in wartime and during its aftermath at home and abroad, finally sapping his strength and his manhood in unshrinking devotion to the causes of economic stability and world recovery.

There is so much that is excellent in the legacy he has bequeathed that it seems ungrateful to carp. One or two observations of a critical nature may, however, be advanced.

First, a few words about *The Economic Consequences of the Peace*. His narrative shows intensity as well as compass of mind. The characters are so strongly marked, the events fall so easily into their place, that the story seems to tell itself. He puts his argument with an admirable vigour and clearness which blinds many readers to the fact that he is sometimes begging the question by evading the real difficulties. The complexity of the phenomena—notably in Germany—depends

upon a thousand conditions of social, moral, and intellectual development, and Keynes applies obviously inadequate tests on occasion. Let it be conceded that much in the punitive clauses of the Peace Treaties of 1919–1920 was unwise and short-sighted. Let it also be conceded that one of the cardinal errors of Mr. Lloyd George, in the teeth of warning expert advice, was the economic balkanization of the former Austro-Hungarian Empire. Let it be conceded further that the reparation clauses were misconceived and, apart from other governing factors, were unworkable because of the insuperable transfer problem. We may admit the whole of this indictment, and yet welcome the return of Alsace-Lorraine to France and the idea that Poles and Czechs should be liberated. Despite some palpable abuses, German grievances were not all legitimate and Keynes failed to make this sufficiently clear and so did irreparable harm. He was, indeed, singularly insensitive to some aspects of the German problem which he sadly neglected, but here he was manifestly out of his depth. As Emile Bourgeois wrote sixty years ago in his *Manuel Historique de Politique Etrangère :*

> *En fait de politique extérieure, les demi-savants sont parfois plus dangereux que les ignorants.*

Men wiser and more competent than I have wondered whether Keynes will always stand among the prophets and how far his main economic maxims will all withstand the test of time. As Mr. Harrod says ' we need a longer perspective.' The question is of great interest to mankind at large and will long be variously debated. In any case we can be assured that Keynes himself would not have ratified those aberrations of his policy that have been posthumously carried by storm and spuriously imputed by others to him. We say this with great confidence because he often said and once wrote that ' an investment in political courage would be marvellously repaid in the end.' His tenure of office under the Treasury was memorable for his pluck, he was always ready to face the heat and the dust and was the inflexible champion of his own opinions however unpopular. He had, of course, clear-cut convictions on a large number of things, and against some a skilful opponent might have put up a tolerable defence; but Keynes had an immense rapidity and striking force in argument and could too easily lift a question out of the range of controversy. Indeed, he revelled in the knowledge that his dialectics could be almost irresistible and had an uncanny gift of pouncing—not always but as a rule—on the essential point in an intricate

argument or situation which gave him an unfair advantage over slower minds. This could be carried to excess, for in the art of indicating emphatic dissent without giving offence he was not a past master, he occasionally spoke with very scant appreciation of his contemporaries, and in delicate and important international negotiations he more than once exhibited a want of tact that unluckily irritated or estranged men whom greater suavity might have retained. The noble art of preventive and constructive diplomacy never has achieved its triumphs through scoring of debating points, when the end is too apt to be sacrificed to the means, and Talleyrand's *surtout pas trop de zèle* comprises a profound and enduring truth. Although those who had to negotiate with Keynes knew there was no intentional unfairness, they were sometimes left with the impression that he lacked the nice tact of exact justice, and this could be disconcerting. Moreover, his surpassing delight in logical disputation was a snare that more than once compelled him to go back on his own advice overnight; it sometimes landed him and his colleagues into rather serious difficulties that could not always be corrected by the virtue of vicarious prudence.

These grave demerits may have been, and in some degree undoubtedly were, because he made a prodigious draft upon his energies and suffered from the evils of a wretched physique. A sound digestion, as Leslie Stephen proclaimed, is the foundation of much moral excellence, but Keynes tried his digestion pretty severely. Nevertheless, by those who knew him really well he was regarded as the best, the kindest, the most understanding of friends, he was the perfect uncle, and he had a great store of love for little children. *Maestro di coloro che sanno*, it is difficult to imagine a more gracious and sympathetic interest than he took in all those who sat at his feet, always concerned to bring out the best of accomplishment and character that was in them.

Keynes had pungent humour and a lambent wit that extended to the gravest matters, quick insight, deep passion, and general power of mind such as is given to few men in a century. He was in several fields a vast encyclopædia of knowledge, dominating by its mass, and he seemed to the layman to have a keener edge, and sometimes a closer grip, a clearer method, than some economists, for he had to a large extent been preserved by the animating surges of public life from the trivial, the fastidious, and the academic spirit. What partly separated him from others was his rare power of

illustration and his command of language. Perhaps his sensitive prose style, which tended to be dramatic, at times lacked fluency and ease through excessive straining after effect, but his special excellence lay in the field of biography and his essays will remain a delight to literary students.

To borrow Keynes' own words in another connotation: his biographer has conveyed 'a contemporary impression of motives and atmosphere such as posterity would never be able to reconstruct for itself and must have been lost in the river of time.' As we have already noted, Mr. Harrod writes:

> many of those who knew Keynes well in his early days may have passed from the scene in ten or twenty years from now.

I will accordingly close this slight paper by recalling one hectic incident in London and a happy memory from Paris.

During the blockade of Germany in the First World War a difficult problem arose which, under the strain of events, required prompt financial intervention on our part abroad. A meeting took place at the Foreign Office and was presided over by Mr. George Cave, afterwards Lord Chancellor but once Chairman of the Contraband Committee; it was attended by Mr. Keynes, by Commander Leverton Harris, by Lord Leverhulme, Sir Eyre Crowe and myself. That the need for a quick decision was compelling was unanimously recognized, but no decision could be reached because Keynes, with some excess of conviction and no remission of intellectual tension, offered a strong and tenacious opposition on points of substance and procedure. After a considerable time the meeting broke up *re infecta*, but a decision had to be reached. And so Mr. George Cave asked Keynes, Crowe, and me to dine with him that evening at his house in Smith Square. Our host was a man of great charm of manner and had the rare gift of making very dissimilar people feel at ease with one another. During dinner he raised neutral topics well worth talking about which struck both from Keynes and Crowe an answering fire. I thought he had surely won over Keynes by his moral fervour and method of approach. Not a bit of it. After dinner the duel began again and the debate lasted far into the night with Keynes as impregnable as a rock. When the other guests were leaving Mr. George Cave drew me aside and asked me to remain for a few moments. He said Keynes had a rich profusion of ideas and suggestions and wherever he ranged had something fresh and arresting to say; but he saw one aspect of a whole complex of problems with such dazzling clarity that he sometimes seemed blinded to other aspects

and thus mistook the true relation and proportion of events. Nevertheless he thought he would relent on the matter in hand, for *la nuit porte conseil;* he advised me to hold up the outgoing telegrams till the last possible moment, adding that if only Keynes' temperamental proclivities could be bridled by someone of slower pace and calmer judgement he would be saved from many pitfalls to the great advantage of himself and the country. . . . At 7 a.m. next day Keynes rang up to say he had reached the conclusion that the course he urged the evening before should be reversed.

The seeds of friendship and regard strewn by Mr. George Cave in Westminster were destined to yield a good harvest in the testing days of 1919 at Paris. As the weary weeks went by there was hardly an afternoon when Crowe and Keynes did not meet in lively social intercourse, for however brief a spell, to turn from tedious and often sterile committee work to the more peaceful pastures of literature and art.

Crowe and Keynes each had the stamp of a real and strong individuality. Crowe, soon to earn for himself a pre-eminent place on what is still a somewhat scanty roll of Permanent Under Secretaries of truly outstanding capacity, always meant what he said, he had great erudition and a spacious vision. His chief intellectual merit was his firm grasp of realities, based more distinctly on masculine observation than on spontaneous play of a vivid imagination.

You never could be quite sure on the other hand whether Keynes' utterances expressed deep convictions or the extemporized combinations of a fertile fancy, for he had some impromptu theories of history. Yet his knowledge, and what is more his thoroughly assimilated knowledge, was enormous, while it is difficult to do justice to the charm of his conversation, never lapsing into the commonplace and often with inimitable felicity producing a pungent effect by a few touches of exquisite precision. His pictures of life were vivacious, rapid, and decisive and never wanting in sharpness of effect.

Conscious as they were, almost in superabundant measure, of each other's foibles and shortcomings, Crowe and Keynes had some things in common. Both had a passionate delight in good music and both had a quick perception of sterling merit wherever it lay. The singular union in each of artistic taste and warm human sympathies disarmed their early intellectual opposition and soon begat mutual admiration.

May, 1951. ALWYN PARKER.

Statistics: Explanatory Notes

A—The Colombo Plan.—Some comparisons between the countries embraced by the Colombo Plan and the U.K. are given in the charts on pages 56 and 57. The importance of agriculture in the economies of these countries is brought out by the diagrams in the middle of page 56. In India, nearly 70 per cent. of the working population in 1949 was engaged in agriculture, in contrast to only 5 per cent. in the U.K. As an indication of the scope for industrial development, consumption of steel in India was only 4 tons per 1,000 persons in 1949, compared with 39 tons in Italy and 210 tons in this country. As regards transport facilities, both India and Pakistan had less than a hundred miles of railway track per million people, against 400 miles in the U.K. Standards of nutrition in the Asiatic countries are low and inadequate; in this country in 1948/9, for example, the average daily consumption of fats was 105 grammes per person whereas in Ceylon it was 57 grammes and in Pakistan as low as 14 grammes.

National income per head in 1949, for the four Asiatic countries shown on page 57, was highest in Malaya at £63, but as will be seen this was only about a quarter of the figure for the U.K.

B, C—Prices.—The charts on page 58 bring out the sharp upsurge in commodity prices that took place in the last half of 1950, following the Korean outbreak. In recent months, however, there has been a tendency for the rise to level off, partly due to the suspension of American stockpiling of certain commodities. At the beginning of March, for example, the U.S. Government suspended stockpiling tin and the price immediately fell by over £200 a ton; on June 21st last, tin stood at £965 a ton, a decline of £650 from the peak touched in mid-February.

The effect of this inflation of world commodity prices on our own prices and costs is brought out by the charts on page 59. By May, our total imports were costing 42 per cent. more than the average for 1950 whilst the prices of imported raw materials had risen by as much as 76 per cent. Export prices, in contrast, had advanced by only 18 per cent. In other words, there has been a marked deterioration in our terms of trade. Wholesale prices by May were 25 per cent. higher than a year ago, and retail prices, as measured by the official index, had increased by 9 per cent.

D—Steel.—Production in 1950 exceeded 16 million tons, an output 57 per cent. greater than in 1938. This year, however, owing to the shortage of steel-making raw materials, it is doubtful whether last year's record level will be maintained. Stocks have been drawn down since the middle of 1950; in the six months to the beginning of May last, the industry used up about a million tons of raw materials. In the chart for steel stocks (page 60), certain items have been excluded from July, 1950. Imports of steel scrap from Germany are likely to be much less than in 1950 but we may obtain slightly larger supplies of iron ore from abroad. A noteworthy point is that of all the industrial groups included in the *Board of Trade* wholesale price index, iron and steel has risen least in price since 1938.

E—1851 and 1951.—Some social and economic changes in this country over the last hundred years are shown in the charts on page 61. Both the birth and death rates are now half of what they were in 1851 although the female population of child bearing age, as indicated by the reproduction rate, is barely being replaced by births—a rate of 1 represents exact replacement. The second chart brings out the shift towards an older population; in 1851, only 24 per cent. of the total population was over 40 years of age, compared with 42 per cent. today. As regards economic changes, the yield on Consols is about half a per cent. higher than in 1851. Due primarily to two World Wars, the national debt now represents over £500 per head, against only £30 in 1851; whilst Government expenditure averages £82 per head, compared with less than £2 a hundred years ago—in 1851 the standard rate of income tax was 7d., today it is 9/6.

F—Balance of Payments.—The great improvement that took place in our external position in 1950 is evident from the charts on pages 62 and 63. For the year as a whole, the over-all surplus of £229 millions was the highest, in money values, achieved for thirty years. With the dollar area, the U.K. deficit was reduced to \$310 millions from \$1,117 millions in 1949, over half of which improvement was the result of a sharp reduction in our payments for dollar goods and services. The rest of the sterling area, moreover, turned a deficit of \$366 millions in 1949 into a surplus of \$514 millions in 1950—due in part to the enhanced demand for and considerably higher prices of sterling-area primary products following the Korean outbreak. As a result, our gold and dollar reserves (page 63) have risen from \$1,340 millions just before devaluation in 1949 to \$3,758 millions at the end of March, 1951. Our overseas position this year, however, is likely to be appreciably less favourable than in 1950.

G—National Income.—The first chart on page 64 shows personal savings as "gross" i.e. before deduction of taxation on capital in the form of death duties, etc. Allowing for this factor, net personal savings in 1950 of £144 millions were exactly the same as in 1938, although in the meantime personal income had more than doubled. The second chart brings out the changes in the distribution of income that have taken place over the last twelve years.

From the table on page 64 it will be seen that by 1950 the pattern of personal expenditure had become much more similar to that of 1938 than was the case at the end of the War. In 1945, out of every pound of expenditure, 5/– on an average was spent on drink, tobacco, entertainment and books, compared with 2/9 in 1938. By 1950, however, this had fallen to 4/–. In contrast, household goods in 1945 accounted for only 9d. but by 1950 had increased to 1/6.

The first chart on page 65 shows that the income of companies and public corporations rose by £237 millions between 1949 and 1950; but if allowance is made for stock appreciation, the increase amounted to only £39 millions, whilst additions to free reserves fell by £116 millions. Taxation took 34 per cent. of total corporate income last year, against 12 per cent. in 1938, whereas the amount distributed in dividends and interest had fallen to 41 per cent. from 68 per cent. before the War.

The surplus of revenue over expenditure for the Central Government, Local Authorities and the National Insurance Funds taken together totalled £676 millions in 1950 (page 65). This year, however, it is estimated the surplus will shrink to £250 millions, due almost entirely to the sharp rise in Central Government expenditure.

H—Gold Production and Stocks.—Although production has risen since 1945, it is still below the immediate pre-war levels and appreciably less than the peak of 40 million ounces touched in 1940; South African output last year was, indeed, approximately the same as in 1949.

For the first time since the War, there was a net outflow of gold last year from the U.S.A. Even so, the U.S. gold stock at the end of 1950 still represented about two-thirds of the gold reserves of the entire world, excluding the U.S.S.R. This gold outflow has been reflected in the rise of the gold and dollar reserves of other countries (third chart).

Books and Publications

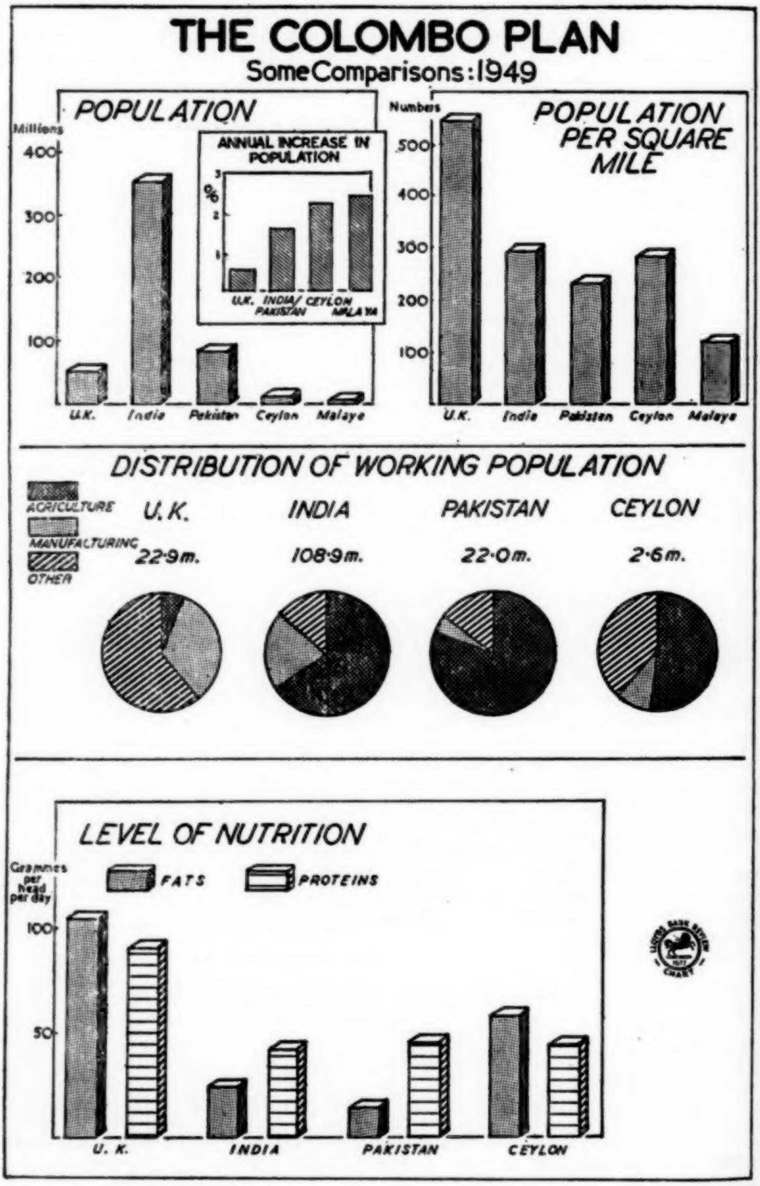
MODERN BANKING

by R. S. Sayers

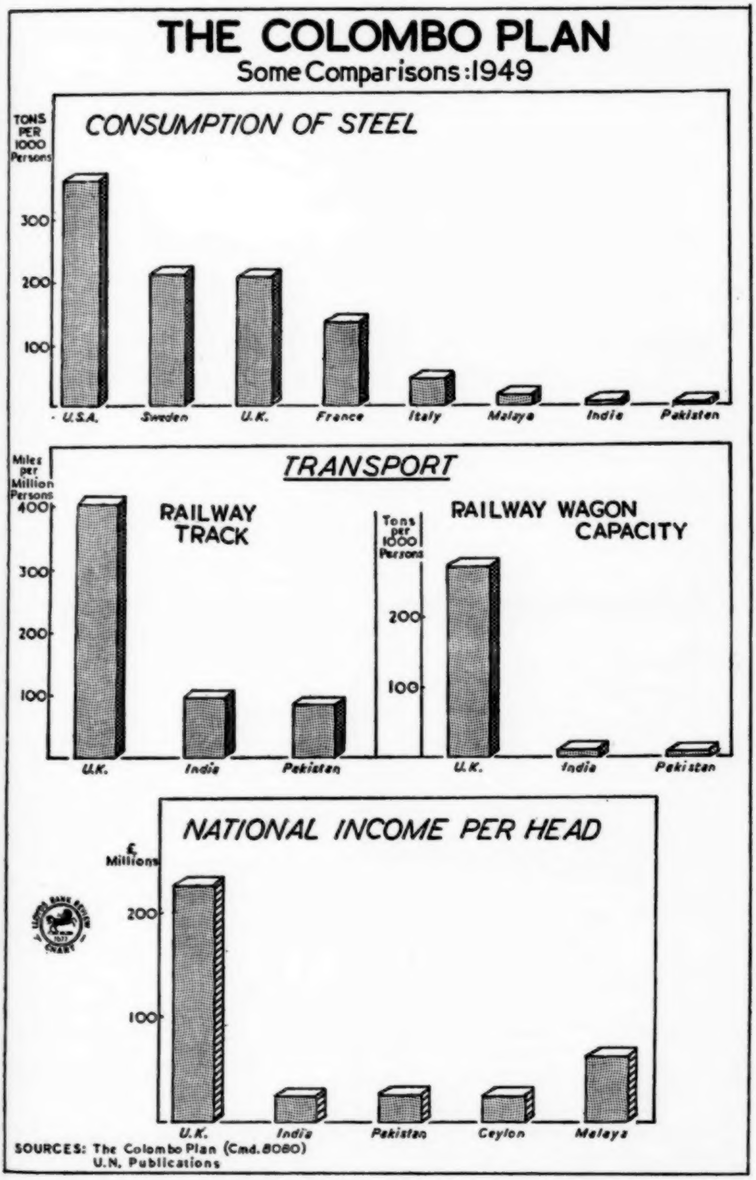
(Oxford University Press. Price 17/6.)

The third edition of this standard work by Professor Sayers has been almost completely rewritten, and is now "a snapshot of banking at the beginning of the nineteen-fifties."

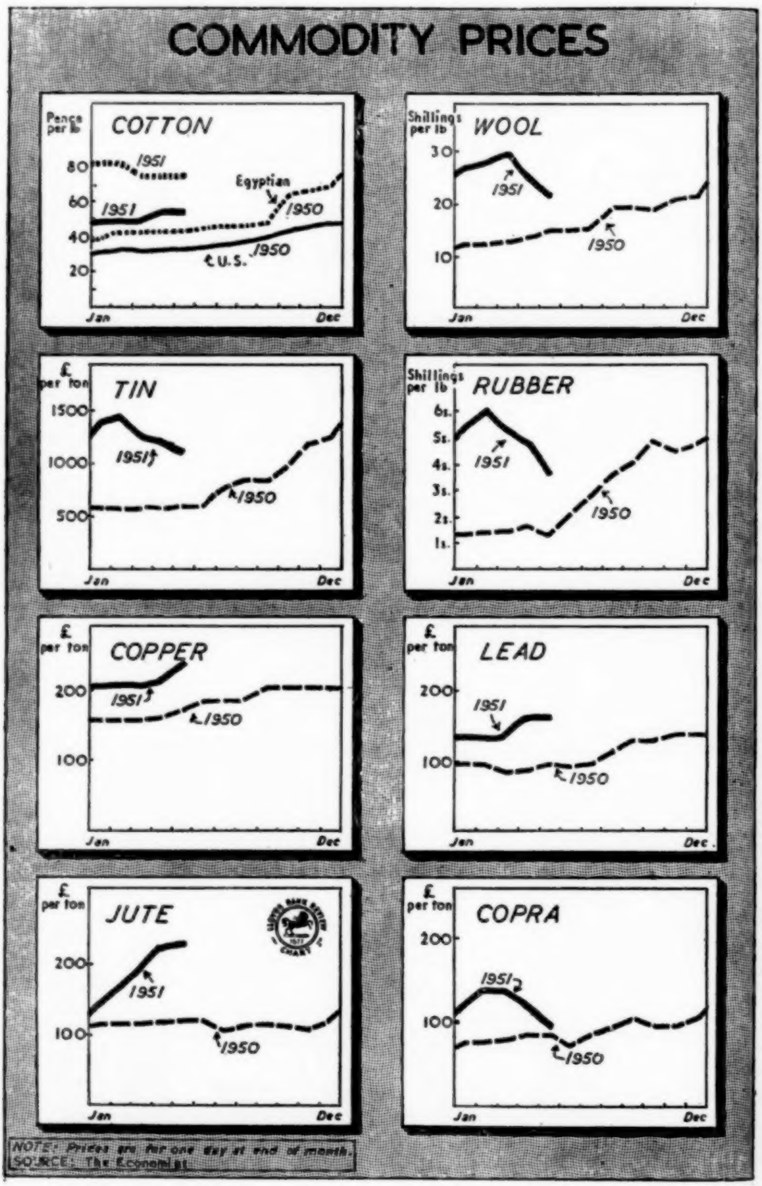
A


THE COLOMBO PLAN
Some Comparisons: 1949
POPULATION
Millions
400
300
200
100
U.K.
India
Pakistan
Ceylon
Malaya
ANNUAL INCREASE IN POPULATION
%
3
2
1
U.K.
INDIA/PAKISTAN
CEYLON
MALAYA
Numbers
POPULATION PER SQUARE MILE
500
400
300
200
100
U.K.
India
Pakistan
Ceylon
Malaya
DISTRIBUTION OF WORKING POPULATION
AGRICULTURE
MANUFACTURING
OTHER
U.K.
INDIA
PAKISTAN
CEYLON
22·9m.
108·9m.
22·0m.
2·6m.
LEVEL OF NUTRITION
Grammes per head per day
FATS
PROTEINS
100
50
U. K.
INDIA
PAKISTAN
CEYLON

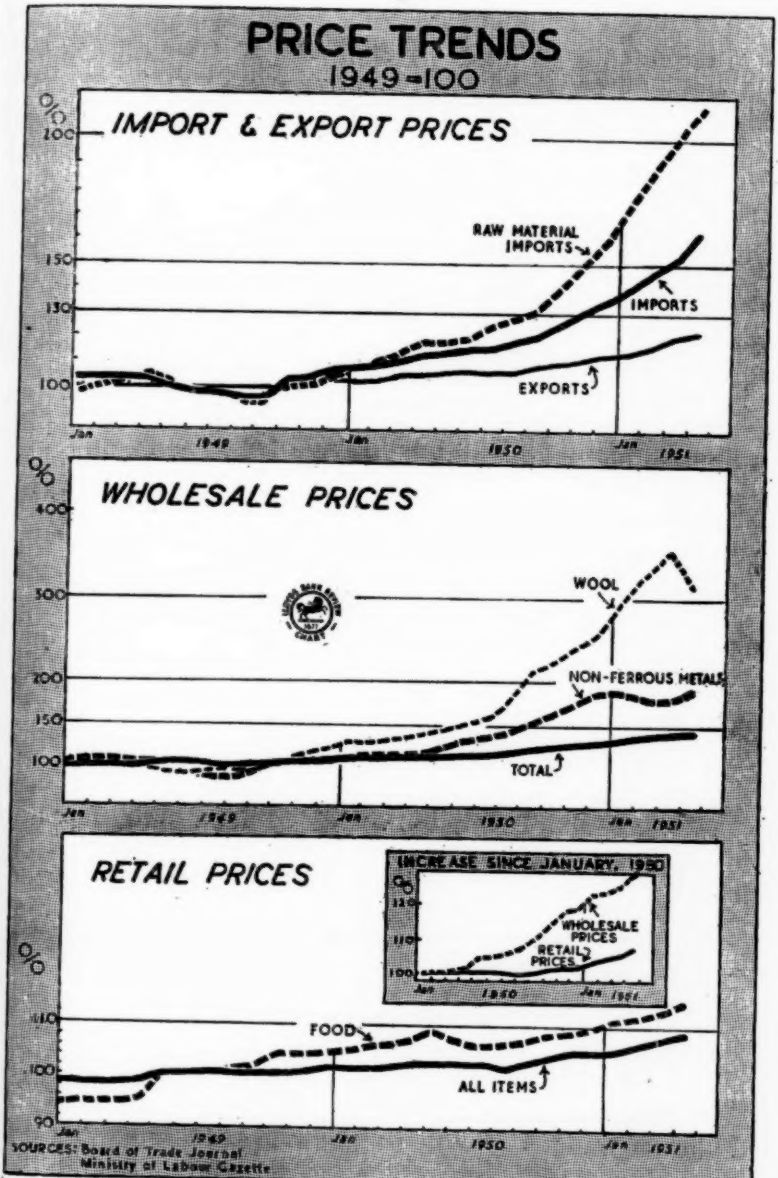
A


THE COLOMBO PLAN
Some Comparisons: 1949
CONSUMPTION OF STEEL
TONS PER 1000 Persons
300
200
100
U.S.A.
Sweden
U.K.
France
Italy
Malaya
India
Pakistan
TRANSPORT
Miles per Million Persons
400
300
200
100
RAILWAY TRACK
U.K.
India
Pakistan
RAILWAY WAGON CAPACITY
Tons per 1000 Persons
200
100
U.K.
India
Pakistan
NATIONAL INCOME PER HEAD
£ Millions
200
100
U.K.
India
Pakistan
Ceylon
Malaya
SOURCES: The Colombo Plan (Cmd. 8080)
U.N. Publications

B

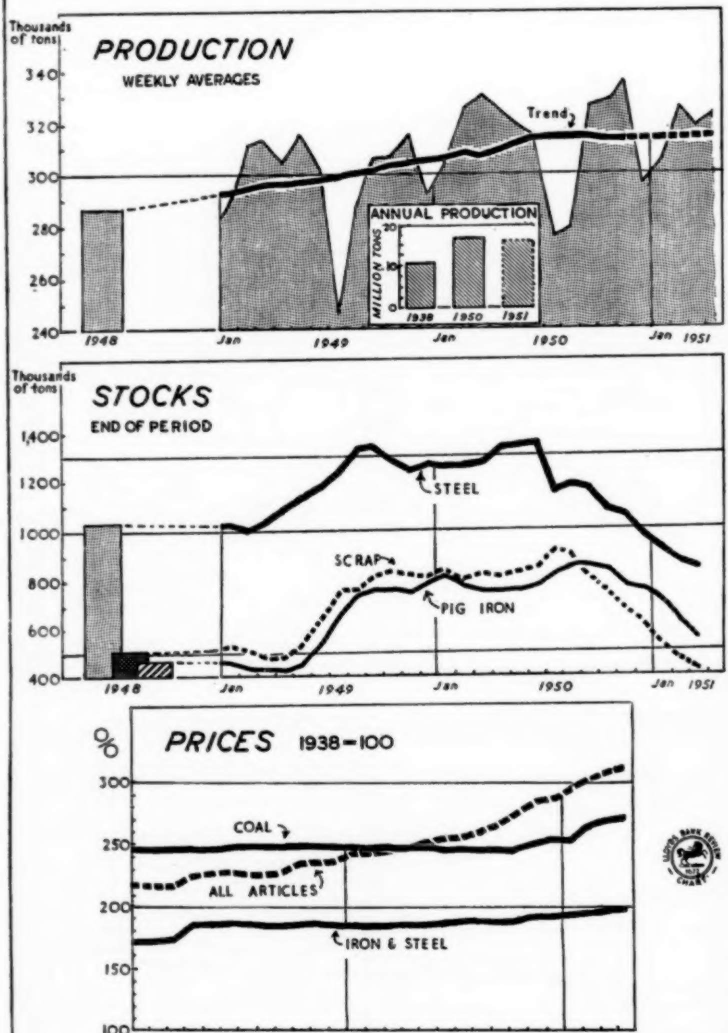

COMMODITY PRICES
Pence per lb
COTTON
80
60
40
20
1951
1951
Egyptian
1950
U.S.
1950
Jan
Dec
Shillings per lb
WOOL
30
20
10
1951
1950
Jan
Dec
£ per ton
TIN
1500
1000
500
1951
1950
Jan
Dec
Shillings per lb
RUBBER
6s.
5s.
4s.
3s.
2s.
1s.
1951
1950
Jan
Dec
£ per ton
COPPER
200
100
1951
1950
Jan
Dec
£ per ton
LEAD
200
100
1951
1950
Jan
Dec
£ per ton
JUTE
200
100
1951
1950
Jan
Dec
£ per ton
COPRA
200
100
1951
1950
Jan
Dec
NOTE: Prices are for one day at end of month.
SOURCE: The Economist

C


PRICE TRENDS
1949=100
IMPORT & EXPORT PRICES
RAW MATERIAL IMPORTS
IMPORTS
EXPORTS
WHOLESALE PRICES
WOOL
NON-FERROUS METALS
TOTAL
RETAIL PRICES
INCREASE SINCE JANUARY, 1950
WHOLESALE PRICES
RETAIL PRICES
FOOD
ALL ITEMS
SOURCES: Board of Trade Journal
Ministry of Labour Gazette

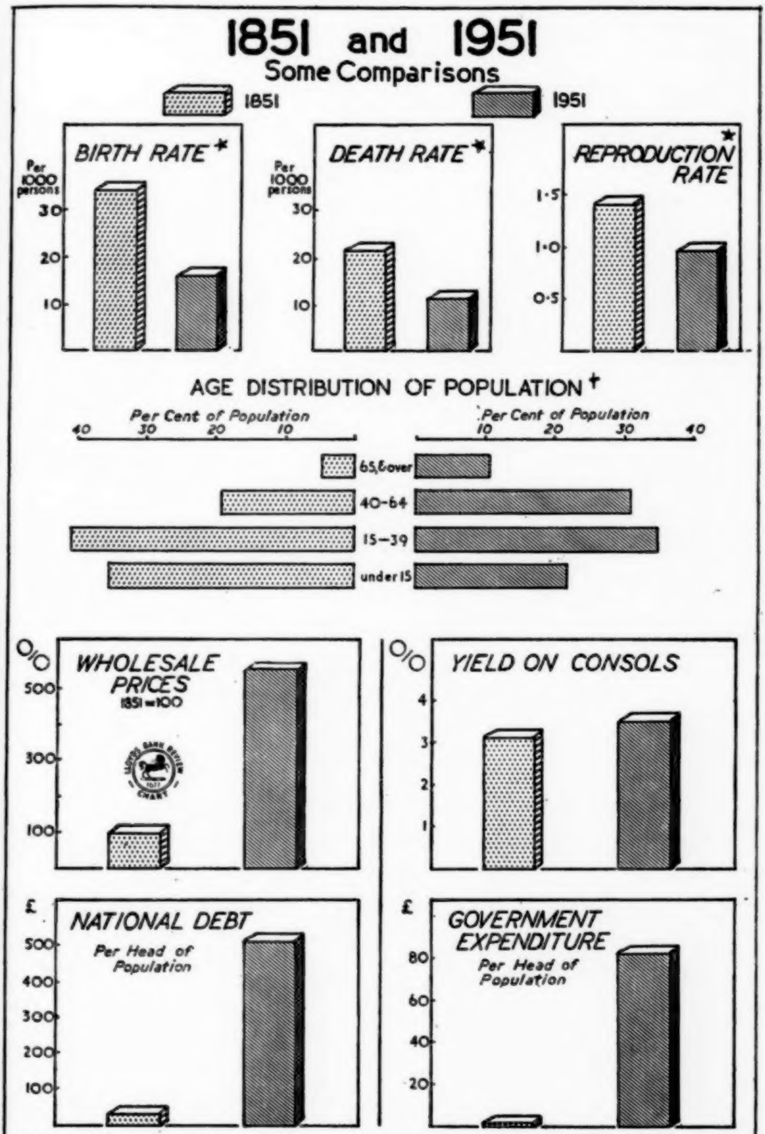
D

STEEL



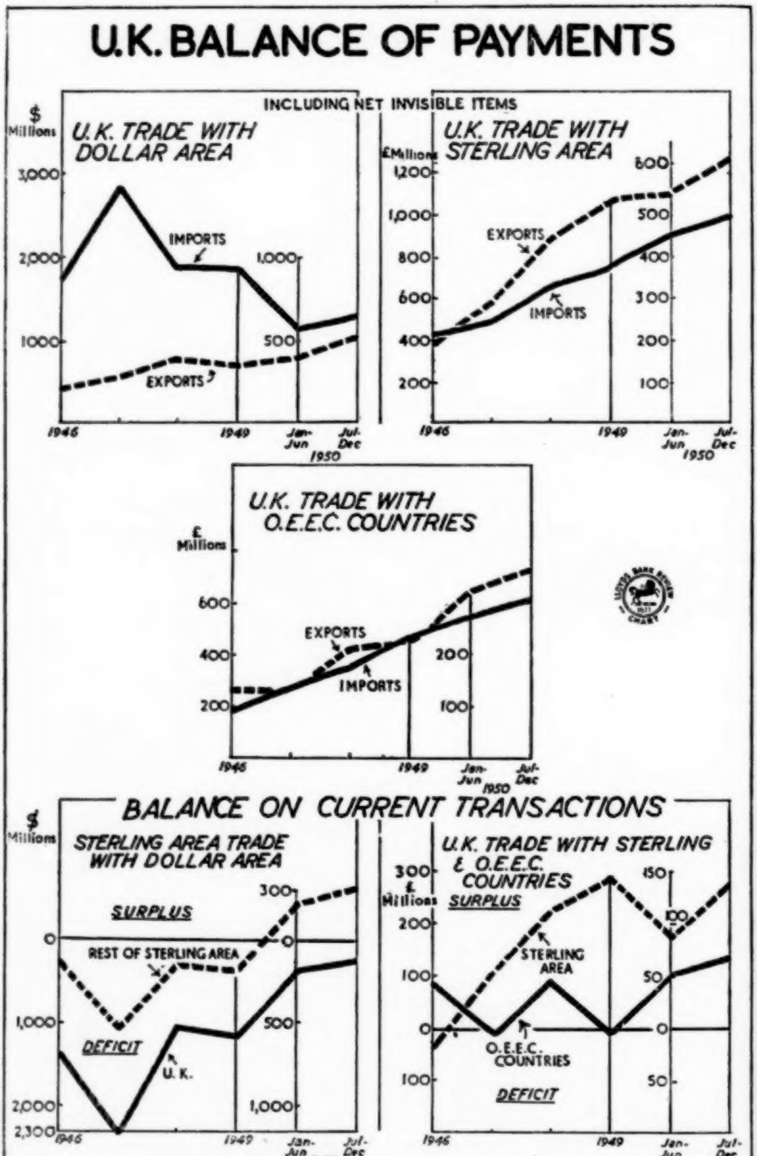
SOURCES: British Iron & Steel Federation Statistical Bulletin
Monthly Digest of Statistics

E

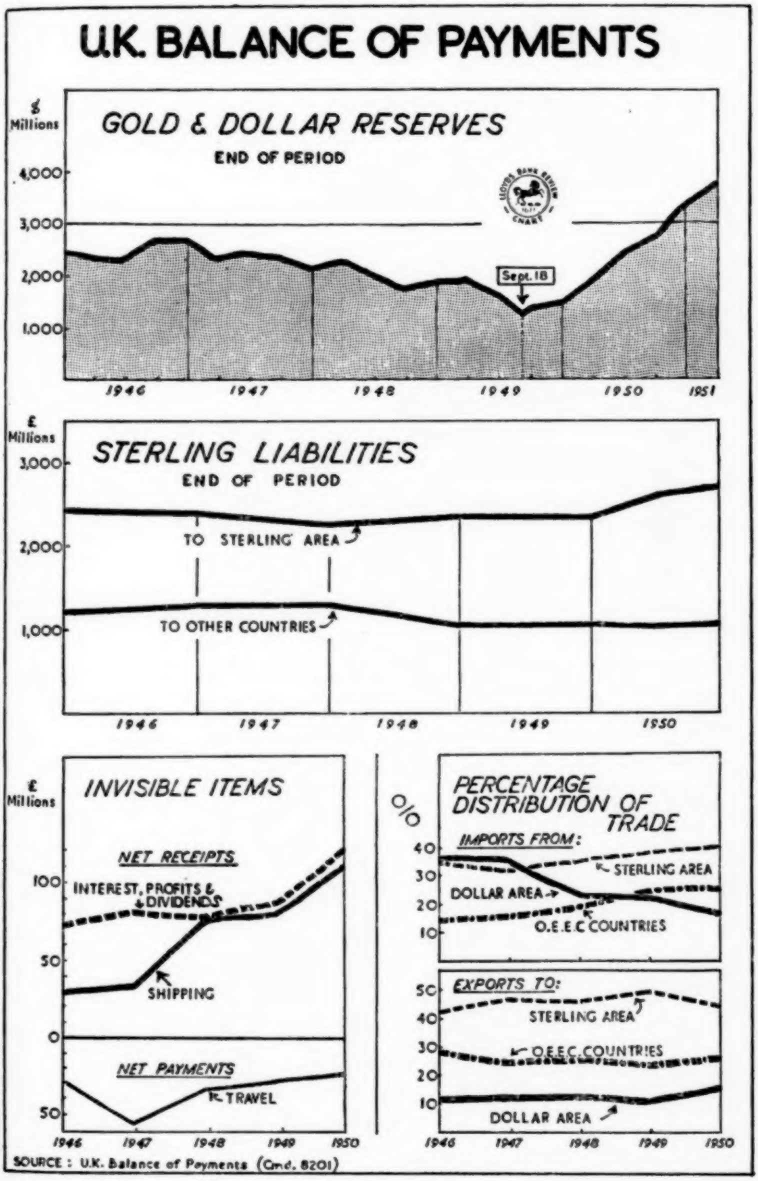


*England & Wales †Great Britain. NOTE: Figures for 1951 refer in some cases to 1950
SOURCE: Annual Abstract of Statistics

F

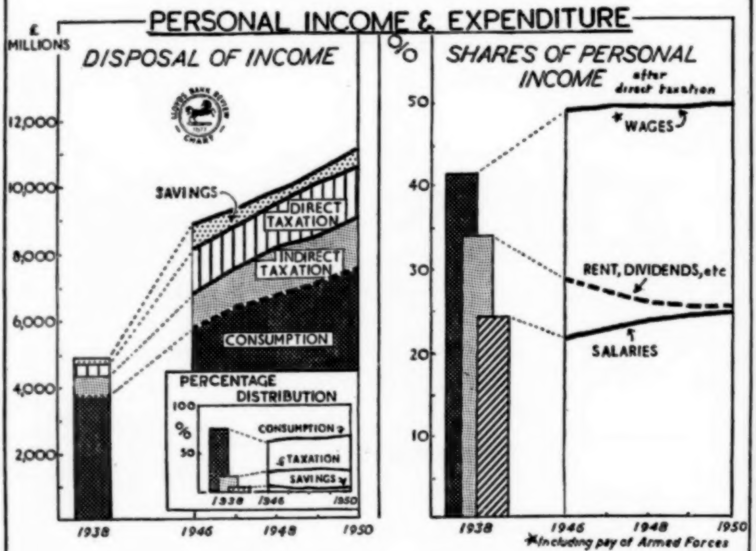

U.K. BALANCE OF PAYMENTS
INCLUDING NET INVISIBLE ITEMS
U.K. TRADE WITH DOLLAR AREA
$ Millions
IMPORTS
EXPORTS
U.K. TRADE WITH STERLING AREA
£ Millions
EXPORTS
IMPORTS
U.K. TRADE WITH O.E.E.C. COUNTRIES
£ Millions
EXPORTS
IMPORTS
BALANCE ON CURRENT TRANSACTIONS
STERLING AREA TRADE WITH DOLLAR AREA
$ Millions
SURPLUS
REST OF STERLING AREA
DEFICIT
U. K.
U.K. TRADE WITH STERLING & O.E.E.C. COUNTRIES
£ Millions
SURPLUS
STERLING AREA
O.E.E.C. COUNTRIES
DEFICIT
1946
1949
Jan-Jun
Jul-Dec
1950

F


U.K. BALANCE OF PAYMENTS
$ Millions
GOLD & DOLLAR RESERVES
END OF PERIOD
4,000
3,000
2,000
1,000
Sept. 18
1946
1947
1948
1949
1950
1951
£ Millions
STERLING LIABILITIES
END OF PERIOD
3,000
2,000
1,000
TO STERLING AREA
TO OTHER COUNTRIES
1946
1947
1948
1949
1950
£ Millions
INVISIBLE ITEMS
NET RECEIPTS
100
INTEREST, PROFITS & DIVIDENDS
50
SHIPPING
0
NET PAYMENTS
TRAVEL
50
1946
1947
1948
1949
1950
%
PERCENTAGE DISTRIBUTION OF TRADE
IMPORTS FROM:
40
30
20
10
STERLING AREA
DOLLAR AREA
O.E.E.C COUNTRIES
EXPORTS TO:
50
40
30
20
10
STERLING AREA
O.E.E.C. COUNTRIES
DOLLAR AREA
1946
1947
1948
1949
1950
SOURCE: U.K. Balance of Payments (Cmd. 8201)

G

NATIONAL INCOME

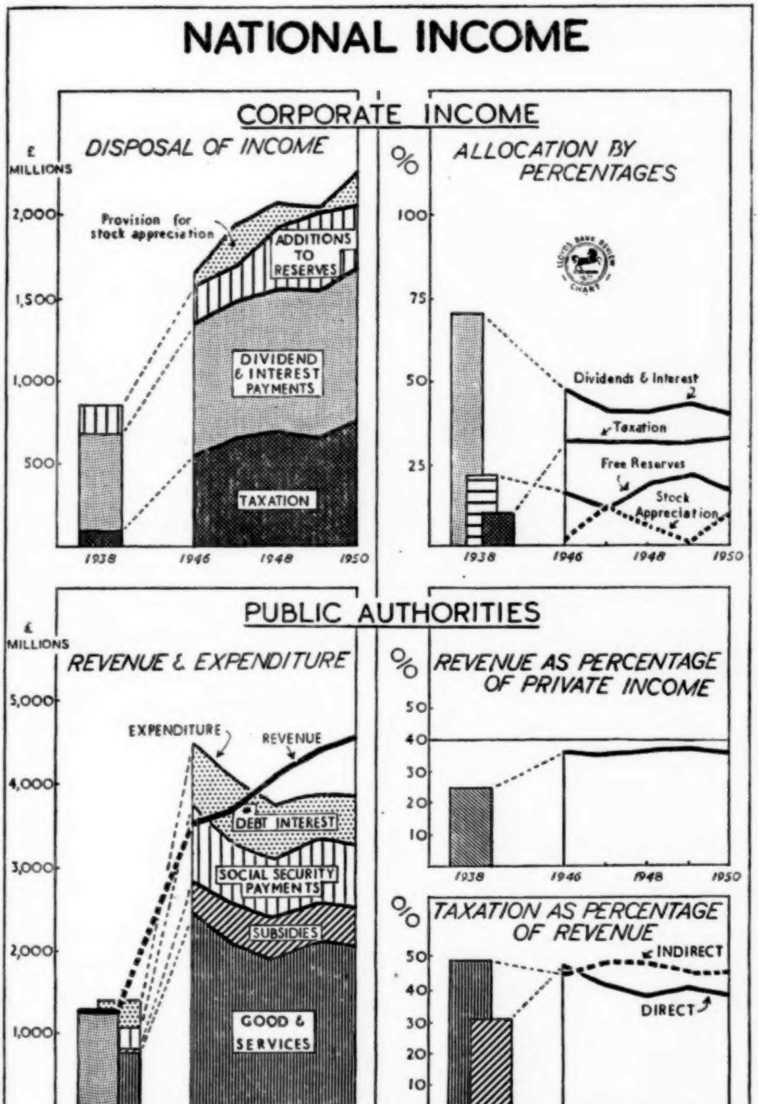


DISTRIBUTION OF EXPENDITURE PER £

	1938	1945	1950
	s. d.	s. d.	s. d.
Food	6. 0.	5. 3.	5. 9.
Rent, Fuel & Light	3. 2.	2. 8.	2. 3.
Household Goods	1. 4.	- 9.	1. 6.
Clothing	2. 1.	1. 9.	2. 3.
Drink & Tobacco	2. 2.	4. 2.	3. 4.
Entertainment & Books	- 7.	- 10	- 8.
Other Goods & Services	4. 8.	4. 7.	4. 3.
	£1. 0. 0.	£1. 0. 0.	£1. 0. 0.

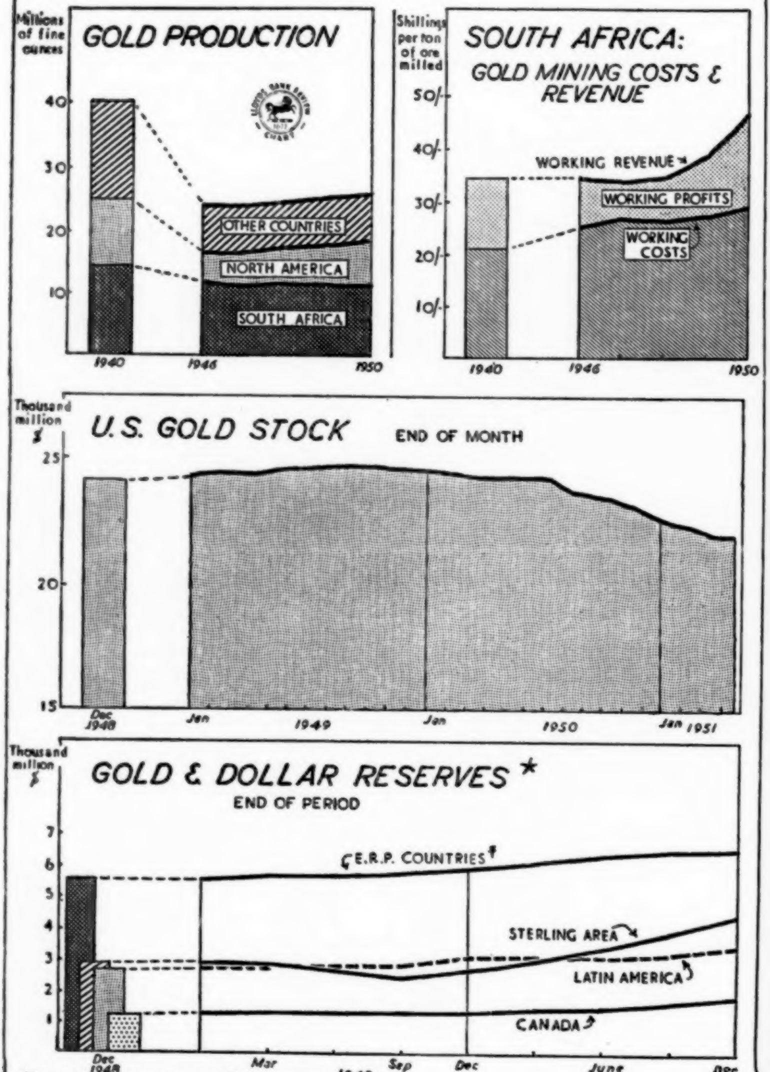
SOURCE: National Income White Paper, (Cmd. 8203)

G


NATIONAL INCOME
CORPORATE INCOME
DISPOSAL OF INCOME
£ MILLIONS
2,000
1,500
1,000
500
Provision for stock appreciation
ADDITIONS TO RESERVES
DIVIDEND & INTEREST PAYMENTS
TAXATION
1938
1946
1948
1950
%
ALLOCATION BY PERCENTAGES
100
75
50
25
Dividends & Interest
Taxation
Free Reserves
Stock Appreciation
1938
1946
1948
1950
PUBLIC AUTHORITIES
£ MILLIONS
REVENUE & EXPENDITURE
5,000
4,000
3,000
2,000
1,000
EXPENDITURE
REVENUE
DEBT INTEREST
SOCIAL SECURITY PAYMENTS
SUBSIDIES
GOOD & SERVICES
1938
1946
1948
1950
%
REVENUE AS PERCENTAGE OF PRIVATE INCOME
50
40
30
20
10
1938
1946
1948
1950
%
TAXATION AS PERCENTAGE OF REVENUE
INDIRECT
DIRECT
50
40
30
20
10
1938
1946
1948
1950
*Including net transfers to private capital accounts in 1946-47.
SOURCE: National Income White Paper (Cmd 8203)

H

GOLD PRODUCTION & STOCKS



* Including private balances † Excluding U.K.

SOURCES: Federal Reserve Bulletin, Bank for International Settlements Reports.